Austria	Sch24	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.700	Iran	Rls210	Philippines	Pso40
Belgium	BFr55	Israel	Shk3.50	Poland	Zl 9,000
Cyprus	C£0.90	Italy	L2000	Portugal	Es165
Denmark	DKr12.00	Jordan	JD1	Qatar	QR9.50
Egypt	E£3.25	Kuwait	Fils.500	S Arabia	SR7.00
Finland	FM8.50	Lebanon	L£400.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta165
Germany	DM2.60	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr180	Morocco	MDh8.00	Switz	SFr2.50
Hong Kong	HK$12	Neth	Fl 3.25	Thailand	Bht50
Hungary	Ft107	Nigeria	Naira10	Tunisia	Din0.800
Iceland	IKr160	Norway	NKr12.00	Turkey	L2000
India	Rs15	Oman	OR1	UAE	Dh7.00

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D 8523A

LOMBARD
Sanctions versus war - a sober view
Page 19

World News

De Klerk rounds on critics over violence

President F.W. de Klerk attacked South African church and political leaders who blamed his Government for violence among rival black factions which has so far claimed over 750 lives.

The attack restated the Government's view that the violence was essentially tribal, and not the work of a right-wing conspiracy. Page 20; When death climbed aboard, Page 5

Oil tanker explodes

A US oil tanker exploded and burned out of control in the Saginaw River, Michigan, injuring at least 15 people and spilling some of the vessel's 204,000 litre cargo.

Rally for democracy

About 70,000 people rallied in the Zambian town of Kitwe as pro-democracy campaigners warned of mass action unless the government of President Kenneth Kaunda agreed to their demands. Page 5

Colombian bombing

Left-wing guerrillas bombed two sections of Colombia's main oil pipeline near the Venezuelan border, forcing the suspension of crude pumping.

Suharto frees critic

A 1,000-strong crowd greeted one of Indonesia's leading dissidents, Hartono Dharsono, when he was freed after more than five years in jail on subversion charges. Page 6

IRA kidnapping

Security forces on both sides of the Irish border were last night searching for a policeman kidnapped by the Irish Republican Army in South Armagh. Page 8

Pressure on Bhutto

Pakistan's Sindh province said it was investigating 21 cases of alleged financial irregularities by the government of ousted Prime Minister Benazir Bhutto. Page 5

Gabon poll riots

Angry voters alleging foul play smashed ballot boxes and closed Libreville's biggest polling station. The poll chaos erupted as Gabon moved towards ending 30 years of one-party rule. Page 5

Rebels claim victory

Eritrean rebels claimed they had crushed an Ethiopian government offensive near Asmara after killing more than 1,000 soldiers and injuring a further 1,900.

Thaw in relations

Israel described a milestone visit to Moscow by two cabinet members as a big step forward in diplomatic relations, which were severed after the 1967 Six Day War. Page 6

Germany's new role

A senior Soviet official has floated the idea that a united Germany should become the sixth permanent member of the United Nations Security Council. Page 3

Swedish nuclear ban

Sweden's ruling Social Democrats vowed to ban visits by foreign warships in two years' time unless they guarantee there are no nuclear arms on board.

Reagan in Moscow

Ronald Reagan, former US President who built a political career on anti-communism, arrived in Moscow as the personal guest of Soviet President Mikhail Gorbachev.

Cash down the drain

US Secret Service agents were called in to help flush out a Long Beach counterfeiter after plumbers trying to unclog a university sewer found it was blocked by about $1m in fake $100 bills.

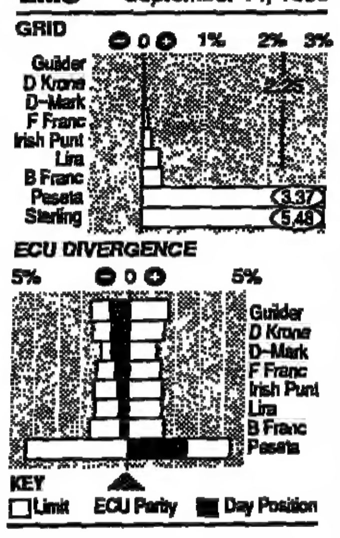
Business Summary

Writs issued against Rover and BAe over subsidies

The British Government has issued writs against British Aerospace and Rover in order to recover £44.4m ($81.4m) in state subsidies made illegally to the two companies during BAe's controversial takeover of Rover in 1988. Page 21

EUROPEAN Monetary System: A strong performance by the Belgian franc enabled the national bank to cut treasury bill rates – the main instrument of credit policy – for the third consecutive week. Higher French inflation, resulting from rising oil prices, had little impact on the French franc. Trading within the EMS was generally quiet, with attention on the foreign exchanges focused on the strength of the yen.

EMS September 14, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu), itself derived from a basket of currencies. Currencies, Page 31

URUGUAY Round: Businessmen and trade negotiators are warning of a critical situation in talks on liberalising the $600bn-a-year trade in services. Page 6

VAUXHALL, General Motors subsidiary, is to more than double scheduled exports from UK plants. Page 20

NEW York Post, loss-making tabloid which was facing closure, has concluded a tentative agreement with unions. Page 21

BERLINER Verlag: Robert Maxwell, UK publisher, and Bertelsmann, West German media group, have paid DM250m-300m ($157m-189m) for 100 per cent of East Germany's largest publishing group. Page 23

HDTV: France and West Germany are to patch up a rift over EC efforts to establish a high definition television standard. Page 6

BRITISH Rail planners working on fresh proposals for high-speed link between London and the Channel tunnel have firmly ruled out route being used for freight as well as passenger traffic. Page 12

IVECO'S acquisition of a majority stake in the Spanish truck-maker Enasa is likely to be the first European merger to be examined under new EC rules. Page 4

EASTERN Electricity, UK electricity companies, may take a stake in nuclear power stations planned by British Nuclear Fuels, state-owned nuclear reprocessing group. Page 12

FT/AIBD international bond prices were not available for this edition due to a technical problem.

Tornado deal under threat as Saudis buy $20bn US arms

By Lara Marlowe in Dhahran

SAUDI ARABIA plans to double the size of its armed forces and buy up to $20bn of equipment from the US.

The wide-ranging military reorganisation is likely to undermine British efforts to increase arms sales to the Kingdom.

Under a Saudi-American deal to be submitted to the US Congress this week, Saudi Arabia plans to buy McDonnell Douglas F-15 fighter aircraft in place of a provisional agreement with British Aerospace to buy 48 Tornado Air Defence Variants.

Saudi Arabia always preferred the F-15 to the Tornado, but was twice prevented from purchasing the American interceptor by Congress.

Saudi Arabia had bought 60 F-15s under a restrictive agreement in 1978, and was denied 45 extended range versions of the F-15 in 1985, when the first phase of the £10bn ($18.5bn) deal with BAe was concluded.

The second phase of the UK deal was already in doubt before the Gulf crisis, but the additional 48 Tornados, a British-built air base and British electronics offered to Saudi Arabia are now likely to be the first confirmed casualties of the US-Saudi deal.

The equipment, construction project and training were the object of a memorandum of understanding signed in 1988, and there was no contractual obligation on the part of Saudi Arabia to go through with the purchase.

Saudi Arabia has taken delivery of 24 F-15s since the beginning of the Gulf crisis and 12 more have already been paid for. At least 24 F-15s are to be included in the new US deal, giving Saudi Arabia an eventual total of between 120 and 140 F-15s.

The Saudi air force had proposed buying a total of 120 Tornados, including 60 interdiction and strike aircraft and 60 ADVs. Seventy-two aircraft were signed for and 48 of the strike Tornados and 12 of the ADVs have been delivered.

The Saudi air force has not been satisfied with the ADV version, which it is said in Saudi Arabia has slower and inferior computerised identification, targeting and filing systems than the F-15.

The Saudis are awaiting the delivery of a further 12 strike Tornados and will ask British Aerospace to change the outstanding order for 12 undelivered ADVs to an additional 12 strike Tornados.

Britain retains a contract to supply minesweepers and to construct one air base in Saudi Arabia. Another unsigned agreement for a second air base is now likely to go to the Americans.

Saudi Arabia may spend $7bn of its $50bn in foreign reserves to finance the first tranche of the $20bn American deal. Saudi Arabia is offering $4bn per year for the next three years to the US followed by a subsequent $1.5bn annual payment for the duration of the contract, which is intended to cover all of Saudi Arabia's defence needs for the rest of the century.

The higher price of oil and a 2bn barrels a day increase in Saudi oil production have provided the Saudi Government with at least $120m per day ($3.6bn per month) in windfall profits which will help to finance the arms deal.

By 1995, the Saudi air force would like to have at least 120 F15 interceptors, 60 British Hawk light attack aircraft, 60 Tornado strike aircraft, and replace its 60 F-5E ground attack aircraft with F-18 Hornets – for a total force of 300 combat aircraft.

To preclude the recurrence of a crisis requiring foreign intervention, the Saudi Government wishes to double its 38,000-strong army and equip it with up to 1,200 American M1 and M60 main battle tanks.

Saudi Arabia's religious leaders, embarrassed by the presence of US troops on Saudi soil, are expected to support the weapons purchases and doubling of the armed forces.

A 1989 $2.7bn Franco-Saudi deal for frigates, helicopters, and surface-to-air missiles is also being accelerated.

Gulf crisis, Page 2; Lombard, Page 19

A demonstrator burns a Soviet flag outside Moscow Town Hall during the march

Moscow marchers demand government's resignation

By Quentin Peel in Moscow

TENS OF THOUSANDS of Muscovites marched through the Soviet capital yesterday to demand the resignation of Mr Nikolai Ryzhkov, the Prime Minister, and his Government for its failure to overhaul the ailing economy.

The demonstrators called for the instant endorsement of the radical plan by Professor Stanislav Shatalin, a senior economic adviser to President Mikhail Gorbachev, to transform the economy into a market system in 500 days, as endorsed by both Mr Gorbachev and Mr Boris Yeltsin, the popular leader of the Russian federation.

Their protest came on the eve of a crucial debate in the Supreme Soviet, the national parliament, which has to decide whether to back the Shatalin plan, or a similar compromise, or go along with Mr Ryzhkov's far more cautious strategy to manage the transition through administered price rises.

The rally was summoned by the radical deputies in the so-called Inter-regional Group, including Mr Yeltsin, and Mr Gavriil Popov, the mayor of Moscow, in a further effort to force Mr Ryzhkov to quit.

Yet the Prime Minister was still fighting for his political survival at the weekend, issuing a new warning of the dire consequences of trying to switch too rapidly to a market system.

"I favour averting chaos in every sphere of our country's life," he said in a television interview. "I favour securing social guarantees to protect our people. We must not give in to the shock therapy so much spoken about."

In spite of his apparent sincerity, Mr Ryzhkov's approach is now identified with the attempts of the government bureaucracy to maintain its centralised control over the state planning apparatus, and popular support has ebbed dramatically as the economy has steadily disintegrated.

The demonstrators chanted "Ryzhkov resign" and "Down with the government and the KGB" as they embarked on the two-hour march from the gates of Gorky Park, round the city's Garden Ring, and down Tverskaya Street to the Manege Square by the Kremlin.

As they marched through Pushkin Square, where hundreds of people were queuing under umbrellas at the McDonald's restaurant, they also chanted "Down with the capitalists of McDonald's," suggesting a resentment of the growing western influence in Moscow.

Given the growing food shortages and empty shelves across the country, the mood of the rally was sombre enough.

"This is a Government which is unable to fill the shelves, and which cannot even collect a bumper harvest," Mr Popov declared, to loud cheers. He called for an alliance of the centre and the left – that is to say, the most radical reformers seeking to transform the Communist system – on the lines of the latest Gorbachev-Yeltsin pact.

Speculation over Ryzhkov successor, Page 20. Israel hails Moscow talks, Page 6

Aid for frontline states to be spent on reforms

By Peter Riddell, US Editor, in Washington

THE $9bn in promised international economic assistance for Egypt, Turkey and Jordan, the countries hardest hit by sanctions against Iraq, is to be integrated into reform programmes backed by the International Monetary Fund and World Bank.

Mr Nicholas Brady, the US Treasury Secretary, said yesterday the burden-sharing exercise to secure larger international contributions for the Gulf crisis had produced $18bn to $20bn in commitments. Some of this will go to help defray the additional US military costs of its deployment in the Gulf, some will go in emergency food and refugee aid, but about half will be for medium-term economic assistance and reform programmes.

A senior US official closely involved in the exercise said the Arab states and Japan wanted to ensure that the large sums of money were not wasted but were instead used to reinforce existing and proposed economic reform programmes in the affected "frontline" countries. This medium-term support is likely to be in parallel with IMF and World Bank efforts.

While it is accepted that sanctions and the loss of remittances from workers in Iraq are causing severe short-term disruptions, officials involved want to ensure the impetus of reform is maintained and that policy disciplines do not disappear.

The co-ordination of such assistance will be informally discussed in Washington at the annual meetings starting

Continued on Page 20

Record transfer of resources to industrialised world, says bank

By Stephen Fidler, Euromarkets Correspondent, in London

DEVELOPING countries transferred record resources last year to the industrialised world the World Bank says in its annual report, published today.

The bank's report, the most significant annual analysis of the financial relationship between the developing and developed world, warns that the prospects for new finance for developing countries are poor.

The record transfer of resources in 1989 comes after a decade in which developing countries have passed huge amounts of money to lenders in the developed world. Before the debt crisis, which erupted in 1982, the developed world had benefited from a net inflow of resources.

The World Bank shows that net transfers of resources – the amount by which developing countries debt service payments exceed new flows of funds to them – reached $42.9bn last year, according to preliminary estimates. This is a $5bn increase on the previous record of $37.6bn in 1988.

The main reason for the increased flow of resources to the industrialised world was the sharp fall in the flow of new funds to developing countries to the lowest level in the decade. Net flows – new loans less capital repaid – dropped to $16.6bn from $22.8bn.

This fall largely reflected the collapse in concerted lending by commercial banks. This was in turn a response to the sharp jump in arrears on interest payments to commercial banks. These arrears rose from about $10bn at the end of 1988 to about $16.4bn a year later, the Bank said.

The report is gloomy about the prospects for a rise in foreign finance to developing countries. The report says: "The prospects for any increases in sources of external financing for the developing countries are not promising except for those involved in debt-workout exercises and for countries implementing economic reforms."

The decline in commercial lending has helped bring about what the Bank calls the "officialisation of the debt problem" – the growing role of official creditors rather than commercial banks in handling the debt.

By the end of 1989, about 48 per cent of long-term developing country debt was held by official creditors compared with 38 per cent at the start of the debt crisis in 1982.

Although the share of foreign direct investment of total flows to developing countries has doubled over the last decade, absolute amounts have decreased and continued to decline in 1989.

Net transfers last year to the World Bank, criticised in recent years as a beneficiary of significant transfers of resources from the Third World, dropped considerably to $32m in the fiscal year to end-June from $3.83bn the year before.

Background, Page 20

CONTENTS

THE MONDAY INTERVIEW

All bankers abhor a crisis, but few actually have to live through one. Someone who has is Abdulla Saudi, the president and chief executive of Arab Banking Corporation, one of the leading banks in the Arab world.
Page 36

FT SURVEYS THIS WEEK

Production of the new Nissan 'Primera' at Sunderland. Car-makers around the globe are facing the pressure of Japanese competition: *(see World Car Industry, Tuesday).*

■ TODAY:
Wales: a stronger economy emerges as Wales attracts new areas of business and industry.

Hungary: grappling with the legacies of communism.

■ TUESDAY:
World Car Industry: Europe is expected to be the big battlefield of the 1990s for the world's car-makers.

■ FRIDAY:
City of London Property: changes in the pattern of demand.

Denmark: coming to terms with membership of the European Community.

UN condemns Baghdad's action against embassies

By **Michael Littlejohns** in New York and **Our Foreign Staff**

THE UN Security Council yesterday strongly condemned what it termed aggressive acts against diplomats and embassies in Kuwait and voted to discuss measures to tighten the economic embargo against Iraq – possibly by extending it to cover air transport.

Yesterday's emergency session was convened at France's request, following the storming of the French ambassador's residence in Kuwait and Iraqi actions against the embassies of the Netherlands, Canada and Belgium.

President François Mitterrand responded on Saturday to the incursion into the French ambassador's residence by expelling 40 Iraqis and boosting ground forces in the Gulf.

EC foreign ministers will co-ordinate a united response to Iraq's actions at the regular monthly meeting of Community foreign ministers in Brussels today.

Mr Mark Eyskens, Belgium's Foreign Minister, said during a visit to Egypt yesterday that the EC had decided to take action against Iraqi representatives in Europe, but declined to elaborate on what moves would be taken.

However, Italy, which holds the EC presidency, yesterday pre-empted any united EC response by banning Iraqi diplomats in Rome from leaving the city without permission. The Italian government also expelled the Iraqi military attaché and his staff.

It said the measures followed "very grave and intolerable acts of hostility" by the Iraqis in Kuwait. Italy's embassy in Kuwait is one of the few still open despite the Iraqi order to close after the country's annexation of the emirate.

EC ministers may consider today whether to call for sanctions against countries which do not apply the UN trade embargo imposed against Iraq. Italy, France and the US all said on Saturday that they favour such a move.

The ministers will also meet Mr David Levy, the Israeli Foreign Minister, who will be anxious to ensure that the realignments in the Middle East triggered by the crisis will not further damage relations already strained by the Palestinian issue.

The meeting is likely to agree to unblock EC funds for Syria which have been frozen since December 1986, after a foiled bomb attack on an El Al airliner in London in which Damascus was implicated.

Diplomats say that Britain, which cut relations with Syria over the 1986 bomb attack, has now dropped its objection to renewing EC financial aid to the country.

Details of help for Egypt, Jordan and Turkey, are likely to dominate the meeting.

In New York, meanwhile, diplomats said intense private talks were under way with a view to extending the economic embargo on Iraq to include air traffic and to apply measures against countries that violated the ban against Iraq and occupied Kuwait ordered six weeks ago.

● The west should consider bargaining with Iraq over a withdrawal from Kuwait, former British prime minister Edward Heath said yesterday.

He said President Saddam was not "a Hitler" and the west should consider an Arab-mediated settlement. Concessions such as a peace conference on the Palestinian issue, the handing over of two deserted Kuwaiti islands to Iraq, or a pact on disputed oil rights, might end the crisis without seeming to reward Mr Saddam for invading Kuwait, he said.

Iraq allows Kuwaitis to cross to Saudi Arabia

By **Lara Marlowe** in Dhahran and a Correspondent in Khafji

IRAQ'S occupying army opened Kuwait's southern border at the weekend, allowing as many as 2,000 Kuwaitis to flee to Saudi Arabia.

Foreigners, however, including thousands of stranded migrant workers from Asia, were not allowed to leave. Nor were any westerners in hiding in Kuwait City known to have escaped.

Saudi officials offered several possible explanations for the Iraqi move. One theory is that President Saddam Hussein of Iraq was using the Kuwaiti exodus to send saboteurs into Saudi Arabia's Eastern Province, where most American servicemen are deployed.

Kuwaitis crossing the border suggested that Iraq was anxious about food shortages or planning to colonise their country further by offering them the choice of leaving or taking Iraqi citizenship.

Iraqi forces confiscated passports, money and valuables from the fleeing Kuwaitis, who were being kept in the border town of Khafji pending identification by Saudi officials.

Because the Iraqis have seized the passport office in Kuwait City, Kuwaiti passports are no longer considered reliable identification by Saudi authorities in any case.

Fears of Iraqi sabotage have increased following unconfirmed reports that two men, believed to be Iraqis, cut a hole in a chain-link fence surrounding jet fuel tanks in Jubail one night last week.

The flow of refugees across the desert to Saudi Arabia – where up to 300,000 Kuwaitis have already sought asylum – has been curbed by Iraqi soldiers who shoot at vehicles, and by mines.

The Kuwaitis arriving at Khafji by road yesterday spoke of a city in decay, where shooting and explosions could be heard every night. "Kuwait is a jail if you stay at home and a jungle if you go outside," one young man said.

Refugees claimed that people were being shot for refusing to put up photographs of Saddam Hussein or the Iraqi flag, and told to spit or stamp on pictures of Sheikh Jaber al-Sabah, the ousted emir.

One man said he had been forced by Iraqi soldiers to shave his head and beard. Asked whether he had worked with the resistance, the man said: "If you stay there and don't co-operate with them, it is a kind of resistance."

A Filipino woman, married to a Kuwaiti, said the Iraqis were being assisted by Palestinian residents. "In our area of Salmiya, the Palestinians are wearing uniforms. There is no government, no law and order," she said. "In Rawdah, where my mother-in-law lives, they burned 25 houses three days ago."

A young Kuwaiti man said: "Forty-three days we have waited for the Americans. Why haven't they attacked? Are they afraid of the Iraqis?"

Prince Saud Al-Faisal, the Saudi Foreign Minister, arrived in Moscow yesterday to sign an accord establishing diplomatic relations with the Soviet Union after a break of more than a half a century, according to Tass, Reuter reports from Moscow.

He said in remarks published in Riyadh yesterday that the Soviet Union's firm stand against Iraq in the Gulf crisis made the timing right to resume relations.

A Kuwaiti mother and child wait to cross into Saudi Arabia yesterday

Weapons deal with Riyadh alarms Israel

By **Hugh Carnegy** in Jerusalem

ISRAEL yesterday reacted strongly to news that the US planned to sell arms worth \$20bn (£10.8bn) to Saudi Arabia. It said such a move could drastically affect the balance of power in the Middle East and erode Israel's security.

Officials said Mr Moshe Arens, the Defence Minister, would raise Israeli objections forcefully when he met Mr Richard Cheney, the US Defence Secretary, in Washington today.

Israel, anxious to see Iraq defeated, has watched with deepening but muted concern as the US has bolstered the military strength of its Arab allies in the Gulf conflict. However, the scale of the latest move brought a loud response to what it sees as the longer-term implications.

"We don't know what the future of those Arab counties is," said Mr Ariel Sharon, Housing Minister and former Defence Minister, after yesterday's cabinet meeting. "We regard it as a major danger to Israel."

Last week, before the latest announcement, Mr Arens said Israel was worried about losing the qualitative military edge it has always relied on for its ability to deter – or defeat – potential Arab foes.

These concerns are heightened by the financial squeeze exerted by the influx of Soviet Jewish immigrants which is restricting funds available for defence spending.

In Washington, Mr Arens will reiterate Israeli demands that new arms sales to Arab states be balanced by more aid and supplies to Israel.

Bush warns Iraqi TV viewers: you are 'on the brink of war'

By **Peter Riddell**, US Editor, in Washington

PRESIDENT George Bush yesterday warned the Iraqi people that they were "on the brink of war" because President Saddam Hussein had misled them into invading Kuwait.

In a videotaped message broadcast by Iraqi television yesterday, Mr Bush, who was shown standing in front of his desk in the Oval Office of the White House, said: "Iraq stands isolated and alone.

"Saddam Hussein tells you that this crisis is a struggle between Iraq and America. In fact, it is Iraq against the world."

While warning of the dangers of the current situation, he said: "War is not inevitable. It is still possible to bring this crisis to a peaceful end."

Bush on Iraqi television yesterday

In the eight-minute message, including a voice-over translation and captions in Arabic, Mr Bush quoted a speech by the Iraqi president in November 1988, in which he said: "An Arab country does not have the right to occupy another Arab country. If Iraq should become intoxicated by its power and move to overwhelm another Arab state, the Arabs would be right to deploy their armies to check it."

The Bush broadcast was followed immediately by a strong attack by the Iraqi government spokesman, who said it was full of lies and accused the US president of trying to become "the dictator of the whole world".

Thousands of demonstrators took to the streets of cities in government-organised anti-American demonstrations.

Mr Brent Scowcroft, Mr Bush's national security adviser, yesterday played down a report that the US would rely on massive air strikes to force Iraq out of Kuwait. The Washington Post yesterday quoted General Michael Dugan, the Air Force Chief of Staff, as saying the US joint chiefs of staff and senior commanders in the Gulf had agreed on the importance of an air offensive, including large raids on Baghdad and targeting Mr Saddam.

Mr Scowcroft, himself an air force general, said Gen Dugan was "not in the chain of command and he does not speak for the administration".

Radicals may send ship to challenge blockade

By **Lamis Andoni** in Amman

ARAB RADICALS met in Jordan yesterday to draw up plans to send a ship with food and medicines – and women and children – to Iraq from North Africa to challenge the international blockade.

Delegates were also drafting an appeal expected to demand withdrawal of foreign troops and implementation of UN resolutions on Kuwait and the Arab-Israeli conflict.

Participants at the three-day meeting, organised by the left-wing Jordanian Arab National Democratic Alliance, aim to endorse the link made by President Saddam Hussein between a solution to the Gulf crisis and demands for an Israeli withdrawal from the occupied territories.

They remain divided, however, on how to respond directly to Iraq's takeover of Kuwait.

In a letter read to the meeting yesterday, leaders of the Palestinian revolt in the West Bank and Gaza urged Baghdad's allies Algeria and Libya to cut off oil to the west and send troops to help Iraq.

Leftists and Arab nationalists grappled with the problem of how to collaborate over the Gulf crisis with Islamic fundamentalists. The Amman meeting includes more than 20 radical groups from eight countries, and some Islamic representatives.

King Hussein of Jordan, who had accepted an invitation to open the conference, did not appear. Representatives of left-wing Egyptian parties and a number of Syrian activists were reportedly barred from travelling to Amman by their respective governments.

US call for burden-sharing raises funds – and unresolved questions

PRESIDENT George Bush's drive to share the burden of the Gulf crisis has produced \$18bn to \$20bn (£10.8bn) in commitments of economic and military assistance in less than two weeks from Saudi Arabia, other Gulf states, Japan and Europe, writes **Peter Riddell**.

However, the exercise has raised questions about the involvement of US allies in decisions over the Gulf operations – "no taxation without representation" – and about American attitudes towards its global defence responsibilities.

Not surprisingly, Mr James Baker, the US Secretary of State, and Mr Nicholas Brady, Treasury Secretary, are delighted with the results of their globe-trotting around 13 countries this month. Mr Brady, who visited Tokyo 10 days ago, said Japan had provided exactly the increase, from \$1bn to \$4bn, in financial support which the US had sought.

The help comes in various kinds: provision of oil and transport, a contribution to defraying US military costs, emergency food and other relief for refugees (notably in Jordan), and assistance to the "front-line" countries most affected by sanctions against Iraq, especially Egypt, Turkey and Iraq.

Roughly half the aid is in economic assistance of one form or other.

The rough distribution of contributions (the numbers and timings are not strictly comparable) is \$10bn to \$12bn from Saudi Arabia and the Gulf states, including \$5bn from the exiled Kuwaiti government; \$4bn from Japan; \$2bn from the European Community; and over \$1.8bn from West Germany (excluding its EC contribution).

The promised help, both in kind and cash, should cover much of the additional costs for the US of the military deployment.

As comments by Mr Tom Foley, the Democratic House Speaker, and Senator Bob Dole, the Republican Minority leader, showed yesterday, the weekend's announcements should for the short-term answer some of the recent strong criticisms made by Congress about the response of Japan and West Germany.

However, there is still likely to be grumbling that neither Tokyo nor Bonn has done enough, notably because of their failure, or inability, to make a military commitment.

The Gulf crisis, coupled with the end of the Cold War, has revived the debate about the scale of US forces abroad, both in Europe and the Far East, and about who should pay for them.

There has been a paradox at the heart of the US response to the Gulf crisis. At one level there has been a delight in asserting an American leadership role – "number one" again.

But this has been coupled with a widespread demand for the burden to be shared, for wealthy allies dependent on oil imports to make a greater contribution.

Yet countries offering a sizeable contribution will seek a say in making decisions. This is separate from the legal issue of whether any use of force should have to be sanctioned specifically by a further UN Security Council resolution, which so dominated the British parliamentary debate 10 days ago but which has hardly been mentioned in the US.

Not only are there uncertainties about how far the US needs to obtain Saudi approval for any attack on Iraq, but the question has now been broadened by the decision of both Britain and France to commit ground forces.

The issues involved in co-ordinating ground forces are of a wholly different kind from the existing, apparently smooth co-ordination of naval forces in enforcing the blockade against Iraq.

Public opinion in Britain and France will want to see their governments having a say in any decision to commit land forces to battle – being consulted rather than just informed – as well as clear signs of a co-ordinated command structure on the ground.

The decisions by London and Paris to commit land forces increases the stakes for them.

By seeking burden-sharing, the US has forfeited the right to take unilateral decisions over the use of military force.

There has, however, been scant public recognition of that in US public discussion so far.

France heads for less independent role

By **Ian Davidson** in Paris

FRANCE's decision to send substantial additional military forces to the Gulf, including 4,000 ground troops and a regiment of 48 light AMX 10 armoured vehicles, is a qualitatively new step in its deployment of an offensive capability against Iraq.

The French decision was announced on Saturday by President François Mitterrand, as part of a three-point response to the Iraqi intrusion on Friday into the French ambassador's residence in Kuwait and the kidnapping of four French citizens, including the military attaché.

Mr Mitterrand painted a sombre picture of the dangers lying ahead: "There is no sign visible from Iraq which would indicate that we shall escape an armed conflict. To judge by the course of Iraqi actions, there seems to be a bellicose spirit which does not appear to have weighed up the risks. We must be ready; but we do not think we have reached the end of the escalation."

Mr Mitterrand's decisions were warmly endorsed both by the ruling Socialist Party and by the main conservative opposition parties. Even the Communist Party gave him qualified support for his intention to issue a fresh appeal over Iraq to the UN Security Council.

The only discordant voice continued to be that of Mr Jean-Marie Le Pen, leader of the extreme right-wing National Front party, who called the Iraqi intrusion into the French residence a "regrettable but minor incident".

In addition to the deployment of ground forces, Mr Mitterrand announced a new recourse to the UN Security Council, including a call that the economic embargo of Iraq should be extended to cover air transport, and for stronger measures against countries and companies evading the embargo.

He also said that France would expel 37 Iraqis, including 11 diplomats.

A new round of European talks on the intensification of the Iraq crisis is expected to take place today at a regular meeting of the 12 European Community foreign ministers, and tomorrow at a specially convened session of foreign and defence ministers of the nine-nation Western European Union defence grouping.

Since early in the crisis, the French government has prided itself on the firmness of its response to the Iraqi aggression against Kuwait and on having fielded the largest fleet in the Gulf apart from that of the US.

However, France's deployments in the Gulf have hitherto been largely naval and tailored for the enforcement of the naval embargo against Iraq; its non-naval forces (mainly marines and helicopters) are based either aboard the aircraft carrier Clémenceau or in the French garrison at Djibouti.

The naval character of the forces has hitherto given colour to the government's traditional assertion of an independent military role in the Gulf. That claim will be more difficult to sustain after the deployment of offensive forces in the region, including armoured vehicles and attack aircraft.

The additional French forces being deployed to the Gulf include:

- an air-mobile brigade of three regiments;
- a regiment of 48 combat helicopters;
- an armoured regiment of 48 AMX 10 armoured vehicles;
- an infantry regiment with anti-tank weapons;
- an anti-aircraft section with high-performance ground-to-air Mistral missiles; and
- some 30 Mirage 2000, Mirage F1 and Jaguar combat aircraft.

French forces already in the region include 14 ships and 9,000 men, of which 3,850 are accounted for by the permanent French garrison at Djibouti. This will take the total to 13,000 men.

Three French ships are on patrol to enforce the embargo; the remainder are in port at Djibouti.

Egyptian boost for Arab commitment

By **Tony Walker** in Cairo

EGYPT is sending 15,000 more troops, backed by tanks and armoured personnel carriers, to Saudi Arabia, in a significant boost to the Arab commitment to a possible war with Iraq.

A senior Egyptian intelligence officer said the troops would leave today to join 2,500 special desert-trained commandos who formed Egypt's advance guard to the Saudi kingdom.

Their despatch follows Syria's decision last week to send some 11,000 troops and 300 Soviet-supplied T-72 tanks to Saudi Arabia. The Syrians already have 3,200 men on the ground in the kingdom and more than 1,000 in the United Arab Emirates.

The buildup of a pan-Islamic force – Pakistan and Bangladesh are also increasing their commitment – coincides with French and British decisions to commit ground forces to add to more than 100,000 Americans already in Saudi Arabia.

Egypt is understood to be sending M-60 tanks and M-113 APC's plus air defence systems – some of this equipment will be shipped across the Red Sea and some will be airlifted – to Saudi Arabia. The American-supplied equipment would fit in with much of the other kit being used by the US and its Gulf allies.

A military attaché in Cairo said that Egypt's decision to send armour to the Saudi desert represented a big jump in its commitment to efforts to force Iraq from Kuwait and bring down President Saddam Hussein.

It seems possible that the pan-Islamic force will eventually match the US presence in the kingdom. With the Egyptian and Syrian commitments, total troop numbers on the ground in Saudi Arabia will reach about 200,000.

Iraq has some 170,000 troops in Kuwait itself, many of them dug in along Kuwait's borders with Saudi Arabia or in fortified positions on the Kuwaiti seafront. Baghdad has also deployed thousands of men on its southern boundary with Saudi Arabia.

Egypt's enhanced military commitment to Saudi Arabia coincides with a stuttering row involving Egyptian opposition figures who were denied permission to leave the country last week to attend a political rally in Amman and travel on to Baghdad.

Among those denied permission to leave were Mr Ibrahim Shukry, leader of the Labour Party, Mr Maamoun Hodeibi, the Moslem Brotherhood's parliamentary leader, and several figures from the socialist Tugammu party, including Mrs Farida Naqash.

Mrs Naqash described the refusal of the authorities to allow her to travel as "an assault on democracy and against basic rights granted to the people by the constitution". She said she was taking the government to court.

The decision to deny travel rights to opposition leaders reflects official sensitivity to criticism of Egypt's decision to commit forces to Saudi Arabia and its support for the American military presence in the region.

Egypt's opposition has, for the most part, refrained from public criticism, restricting itself to expressing reservations about the presence of foreign troops in Saudi Arabia.

Egypt, meanwhile, has taken steps to tighten security on its border, fearing Iraqi-inspired terrorist attack. It has imposed entry restrictions on Iraqis and Kuwaitis and barred most Palestinians from visiting.

Reuters quoted officials as saying at the weekend that Kuwaitis were included in the new travel curbs because Iraq had taken possession of the passport office in Kuwait and may issue Kuwaiti passports to agents sent to Egypt.

EgyptAir has also tightened security on flights from some Arab capitals. Extra security officers are being employed to search passengers' baggage from places such as Amman which has supported Iraq in the Gulf crisis.

Extra German contribution pleases Baker

MR James Baker, US Secretary of State, said he was well pleased with a larger-than-expected German contribution to the Gulf crisis, valued at DM3.3bn (£1.12bn), after talks with Chancellor Helmut Kohl, writes **David Goodhart** in Bonn.

Pressure on Germany to step up its contribution intensified at the end of last week after a stormy debate in the US Congress. The new contribution is nearly three times bigger than had been expected and Mr Baker said he was "very satisfied with the very significant figures".

Mr Kohl, who met Mr Baker in his home in Oggersheim, said he regretted that Germany's constitutional limits on troop deployment outside the Nato area made it difficult for the country to fulfil its international obligations.

He said he hoped a united German parliament would change the constitution next year. "For the moral stature of a re-united Germany it is important not only to be world champions in exports but also to share in international responsibilities," he said.

The new German contribution is made up of DM1.6bn in support for the US military in the form of equipment and transport aid, DM420m as Germany's contribution to EC aid, and DM1.28bn in aid to countries in the Middle East badly affected by the crisis.

The German contribution had previously been restricted to sending minesweepers to the eastern Mediterranean, pledging DM20m in aid to Jordan and providing the US military with DM90m worth of amphibious tanks.

In the new package the principle of not directly supporting the US military action in Saudi Arabia seems to have been abandoned. Civilian aircraft and up to 74 ships will be made available for transport at a cost of DM400m.

As well, 60 tanks equipped for combatting chemical weapons will be sent, worth DM200m. On top of that, DM1bn of military equipment will be made available.

Relief for the directly affected countries, in the shape of waived debt or extra development help, comes to DM975m for Egypt, DM200m for Jordan and DM110m for Turkey.

Moscow plan for another 'big power' to become a permanent member of the Security Council

Larger UN role urged for united Germany

By David Goodhart in Bonn

A SENIOR Soviet official has floated the idea that a united Germany should become the sixth permanent member of the United Nations Security Council alongside the US, the Soviet Union, China, Britain and France.

Mr Nikolai Portugalov, President Mikhail Gorbachev's main adviser on German affairs, also told the West German newspaper Bild am Sonntag that he believed German membership would be unanimously supported by the existing permanent members.

Mr Portugalov's comments on the desirability of a greater world role for the new Germany, coming days after the signing of a wide-ranging co-operation agreement between Bonn and Moscow, could re-awaken anxieties about a new German-Soviet "special relationship" in some western capitals.

One western official said yesterday that the Soviets would hope to acquire a "permanent ally" on the Security Council if Germany was to join.

Mr Portugalov said: "The new Germany will without doubt have not only a regional/European dimension but also a global dimension – with a bridging function between east and west."

He added that there two good reasons to bring Germany on to the Security Council: German help in regional crisis management was vital and the status of Security Council membership would allay fears about an over-mighty Germany.

Mr James Baker, the US Secretary of State, and Mr Hans-Dietrich Genscher, the West German Foreign Minister, said in Bonn on Saturday that the Soviet proposal for German membership of the Security Council should be discussed at the UN.

At their press conference, Mr Baker praised Bonn for the higher-than-expected contribution to the Gulf crisis it has decided to make.

Mr Portugalov's idea is not likely to be popular with the Third World, which considers that western powers are already over-represented on the Security Council, and Japan may well claim that it has as much right to a seat as Germany. Germany's lack of nuclear weapons would also leave it the odd man out in an all-nuclear club.

Genscher looks eagerly at new international heights to scale

WEST GERMANY'S veteran Foreign Minister has not yet run out of visionary peaks to scale. Mr Hans-Dietrich Genscher, who has become increasingly beatific with the approach of German reunification on October 3, is looking forward with ill-concealed satisfaction to becoming all-German Foreign Minister.

He was born in Halle, in what used to be the Communist half of Germany, and fled to the west in 1952. His diplomatic subtlety and drive have been important factors in recent months making unification possible. But the message from Mr Genscher, in an interview with the FT and four other European and US newspapers, is that he still sees no shortage of outlets for his missionary zeal.

Believing European monetary union is too important to be left to the finance ministers, he aims to override the objections of the Bundesbank and

West Germany's veteran Foreign Minister talks to David Marsh

Mr Theo Waigel, the Finance Minister, by pressing forward with plans towards setting up a European central bank. "The single market which starts on January 1 1993 will not be able to flourish fully unless we have a common economic and monetary policy."

Mr Genscher wants to counter energetically the danger that, with the ending of the 40-year division of Europe, the US will increasingly leave the Continent to itself. He favours the continued presence of Nato troops on German territory after unification, although he is coy about numbers. And he urges a solemn "transatlantic declaration" later this year setting out common US and European political goals.

His energies, however, appear directed above all towards building what seems likely to become Europe's pivotal political relationship: the link between a united Germany and the Soviet Union.

Last Wednesday in Moscow Mr Genscher signed the final accord of the "2 plus 4" group of foreign ministers on the external aspects of German unity. Germany agreed to provide the Soviet Union with aid totalling DM15bn (£5.1bn) to ease the departure of Soviet troops from East Germany by the end of 1994.

On Thursday he initialled a far-reaching treaty of "neighbourliness, partnership and co-operation" with Moscow. The treaty includes a mutual non-aggression pledge which, in formal terms at least, contradicts part of Germany's collective security commitment within Nato.

Mr Genscher steps carefully around charges, voiced especially in the US Congress, that Germany is forging a "special relationship" with Moscow. It is significant, however, that he is a great admirer of Mr Gustav Stresemann, the Weimar Republic Foreign Minister who in the 1920s showed particular deftness in manoeuvring German foreign policy between the conflicting requirements of east and west.

A portrait of Mr Stresemann looks down approvingly at Mr Genscher as he sprawls in a maroon armchair in his expansive Rhine-side office. Mr Genscher points out that France, too, will shortly agree a comprehensive treaty with the Soviet Union, and that relations between Moscow and the US are "closer than ever before".

He is politely scathing about foreign critics who juxtapose Germany's readiness to channel billions of D-Marks to Moscow and Bonn's reluctance to join the US-led military build-up in the Gulf. "Payments for the withdrawal of Soviet troops are in the interest of the west," he says. So, he adds, is Nato membership of a united Germany. "In the past, we often heard that the Germans would take unity in exchange for neutrality. We have not done that."

The Nato to which the whole of Germany will belong will, however, plainly become a different institution. Mr Genscher says: "I don't know whether it is perhaps a bit reactionary if one uses east and west as political expressions. They are now geographical, not political. The important thing is the fundamental values ... You can't say whether democracy is eastern or western. Democracy is democracy. Freedom is freedom."

He makes clear that a united Germany "will have a higher political and economic weight." But he says: "We do not want to turn this into a search for more power, rather for more responsibility." Germany should advocate "the policy of the good example", in areas ranging from the environment to Third World aid, he suggests. He backs a change in the constitution after the December 2 elections to allow German troops to participate in United Nations peace-keeping operations.

There is a corollary to the "good example" policy: ever more foreign ministers will have to discover the delights of Halle, a medieval market city, now suffering from 40 years of Communist grime, where the composer Handel was born in 1685.

Mr Roland Dumas, the French Foreign Minister, was with Mr Genscher in Halle this weekend. Mindful of the composer's connections with the English court, Mr Genscher has invited Mr Douglas Hurd, the British Foreign Secretary, to his home town for the Handel Festival next May – all part of the Genscher bid to underline how the east-west divide no longer exists.

Mr Genscher: His energies appear directed above all towards building the link between Germany and the Soviet Union

EC considers big economic aid programme for Soviet Union

By Quentin Peel in Moscow

THE European Community is to consider a four-part programme of economic aid and co-operation with the Soviet Union, including funds to help make the rouble convertible and support the Soviet balance of payments.

The proposals were revealed in Moscow yesterday by Mr Gianni de Michelis, Italian Foreign Minister, and current chairman of the EC Council of Ministers. He also announced Italy would guarantee up to $2.5bn (£1.35bn) in short-term credits before the end of the year, including an untied credit of $1bn as its "contribution to the Soviet programme of economic stabilisation."

He disclosed the figures after talks with President Mikhail Gorbachev and Mr Eduard Shevardnadze, Soviet Foreign Minister. The generous Italian credit facilities – although they include outstanding credit lines not drawn by the Soviet Union – underline Italy's determination to keep its place as Moscow's second most important west European trading partner behind Germany.

The four-part EC programme will be presented to the Community's heads of government at their Rome summit in October, and formal proposals from the European Commission have yet to be drafted.

Amoco of the US has signed an agreement with the Soviet Union that it hopes will lead to a joint venture to develop Siberian petroleum resources, writes Barbara Durr in Chicago. It will look at the feasibility of developing several oilfields in co-operation with Soviet organisations.

Texaco already has a similar agreement. The accords show Moscow's interest in using US oil company investment and technology to exploit Siberian reserves.

The first part of the programme would be a credit – possibly $5bn – as a fund for monetary stabilisation and to enable rapid progress towards rouble convertibility. This would be similar to the current Polish fund.

A second fund would be more directly for balance of payments support over the next 3-4 years, Mr de Michelis said.

The third part of the programme would be for multilateral exploitation of Soviet energy and other natural resources, as proposed by Mr Ruud Lubbers, the Dutch prime minister.

Finally the specifically Italian proposal to be put in Rome is for a comparable programme for Soviet communications.

The direct Italian assistance, Mr de Michelis said, would include up to Rs500m to refinance Soviet debts to Italian suppliers, similar to the DM3bn (£1bn) deal with Bonn earlier this year. All foreign traders have been facing a serious backlog in Soviet payments.

The untied credit of $1bn would require a special bill in the Italian parliament because there is currently no legal base for such a loan. Moreover the decision is at this stage purely a political one by the Italian government and banks have yet to be found to put up the money.

The third element of the short-term bilateral aid, Mr de Michelis said, was for an additional credit line of L1,000bn with Italian government guarantee to promote Italian exports to re-equip Soviet industry.

● German economic experts will fly to Moscow today for talks aimed at helping the difficult birth of market economics there, writes David Marsh. Mr Tyll Necker, president of the Confederation of German Industry, heads the delegation, which also includes Mr Karl Schiller, former Economics minister and Mr Hans Tietmeyer, a Bundesbank director.

Bonn Foreign Ministry to give EMU a push

By David Marsh

THE West German Foreign Ministry will today attempt to restore faltering momentum to the drive towards European economic and monetary union (EMU), but risks a clear split with the Bonn Finance Ministry over the issue.

Ms Irmgard Adam-Schwaetzer, Minister of State at the Foreign Ministry, is likely to propose in Brussels today that January 1 1993 be the date for the start of stage two of the move to a European currency and central bank.

EMU will also be high on the agenda when Chancellor Helmut Kohl meets President François Mitterrand in Munich this evening for the six-monthly Franco-German government talks.

Backed by Mr Hans-Dietrich Genscher, the Foreign Minister, Ms Adam-Schwaetzer disapproves of the refusal by Mr Theo Waigel, the Finance Minister, to put forward a stage two date at last weekend's EC meeting in Rome.

Ms Adam-Schwaetzer is likely to suggest that EC states which cannot immediately satisfy all criteria for a common exchange rate policy should benefit from softer rules for an interim period. This raises the possibility that only the relatively low-inflation countries at the heart of the European monetary system – Germany, France and the Benelux countries – would be able to move initially towards full EMU.

The Foreign Ministry believes Mr Waigel and the Bundesbank are playing into the hands of EMU opponents, such as the British Government, who want to delay indefinitely any move to permanently fixed exchange rates. Mr Kohl and Mr Mitterrand brought out a surprise statement in April calling for EMU to be in place by January 1 1993, the starting date for the Community's single market.

Last weekend's inconclusive Rome outcome has heightened French fears that the Germans are now back-tracking from this target.

BDTV, Page 6

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INTERNATIONAL NEWS

THREE-COUNTRY TOUR WILL PROMOTE HER VISION OF AN EXPANDED COMMUNITY

Thatcher looks for broader Europe

MRS MARGARET THATCHER, the British Prime Minister, was greeted by enthusiastic crowds in Prague last night at the start of a three-nation European tour aimed at promoting her vision of an expanded European Community embracing the newly-democratising east, writes Ivo Dawnay in Prague.

Within an hour of her aircraft landing, she had been treated to an unprecedented 21-gun salute, inspected an honour guard with her Czechoslovak counterpart, Mr Marian Calfa, and been mobbed in a hectic city centre walkabout.

The week-long visit to Czechoslovakia, Hungary and Switzerland will serve to flesh out her views on a broader Europe before the 35-nation meeting of the Conference on Security and Co-operation in Europe (CSCE) in Paris in November. It is also intended to improve trade and business links with the two eastern European countries while consolidating old ties with Switzerland.

The EC has ruled out new members before the internal market is completed at the end of 1992, but in a speech to the Aspen Institute in Colorado last month, Mrs Thatcher spelt out her support for an open-door policy towards the east in the longer term. "The Community should declare unequivocally that it is ready to accept all the countries of eastern Europe as members if they want to join, provided that democracy has taken root and that their economies are capable of sustaining membership," she said.

Czechoslovakia and Hungary are negotiating association agreements with Brussels and intend to seek full membership.

The Prime Minister has also been in the forefront of those seeking the rapid integration of the six European Free Trade Area (Efta) countries into the frontier-free single EC market at the end of 1992.

Talks with Efta may are now under way but look unlikely to meet a December deadline for completion because of difficulties in finding adequate consultative mechanisms in the early, formative stage of the EC's legislative process.

Mrs Thatcher's positive attitudes to closer ties, however, guarantees her a warm welcome in all three countries she visits. The only contentious issue likely to surface centres on Czechoslovak and Hungarian irritation at long delays suffered by their citizens when applying for obtaining visas to visit Britain. Both countries are also likely to seek more financial aid from the UK.

Today, Mrs Thatcher is to talk with President Vaclav Havel and Czech leaders before a speech to the Czechoslovak Federal Assembly tomorrow. She will then meet Slovak leaders in Bratislava before continuing to Hungary.

On Wednesday, she will meet Prime Minister Jozsef Antall and other political leaders, before visiting the Budapest stock exchange. In her two-day official visit to Switzerland, starting on Thursday, she will see President Arnold Koller in Berne, staying on in a private capacity for a lunch on Saturday with bankers.

Enthusiastic crowds and a 21-gun salute greeted Mrs Thatcher in Prague last night at the start of a visit during which she will have talks with President Vaclav Havel

Iveco deal in Spain under EC scrutiny

By Lucy Kellaway in Brussels

IVECO'S acquisition of a majority stake in the Spanish truck-maker Enasa is likely to be the first European merger to be examined under new EC rules. These come into force next Friday and give the Commission sole power to veto big Community mergers.

Although the deal was announced last Thursday, Commission officials said it would be caught by the rules so long as the shares changed hands after September 21.

Even if they do not, however, the Commission would be likely to warn the companies of possible later intervention if it thought there were serious competition objections. The proposed deal would give the new merger department a big case to start on, as it concerns two large national concerns in an important Community market.

Iveco, Fiat's commercial vehicles subsidiary, is the third largest European truck-maker, behind Mercedes Benz and Renault/Volvo. The addition of Enasa's output – the eighth largest in Europe – would put it in second place.

The Commission will also be looking closely to see if there are hidden elements of state aid in the deal. The Spanish Government was not in favour of selling the heavily loss-making company to a German consortium of MAN and Daimler Benz, on the grounds that the consortium had sweeping rationalisation plans. Instead, it negotiated the Fiat deal.

Nice mayor quits

The mayor of Nice, Jacques Medecin, announced his resignation yesterday, bringing to an end a right-wing dynasty reaching back over half a century of Riviera politics, Reuter reports. The Socialists, he claimed, had hounded him from office with calumny and charges of corruption, and were plotting more "low blows" against him.

His business affairs are under investigation and he has been assessed for nearly FFr17m (£1.7m) in unpaid taxes and resulting fines.

Worried frowns belie a quiet confidence in Italian industry

The country's previously successful formula should enable it to prosper in the post-1992 world, writes **John Wyles**

THE GULF crisis, with its impact on domestic industrial costs, energy prices and general world demand, piles on the agony for Italian industrialists already worried about declining competitiveness in European and world markets.

Barely a week has gone by in recent months without a lament from Mr Sergio Pininfarina, president of the industrialists' organisation Confindustria, about the debilitating impact of rising labour costs and higher government charges on industry's capacity to remain competitive and to meet the challenges of Europe's new internal market.

Distinguishing between short-term posturing and underlying reality is never easy in Italy, however. Mr Pininfarina can point to a 10.5 per cent rise in labour costs last year and the dangers of a similar climb this year. But the 10.1 per cent increase in Italy's exports in 1989 is hardly evidence of a declining share of overseas markets. Is his concern not, perhaps, principally motivated by this year's round of private sector pay bargaining, and is not the Gulf crisis a providential prod for stimulating trade union concern to avoid still higher inflation and employment losses?

More fundamentally, industrialists of all sizes and persuasion have spent the past two years trying to assess the implications of the European Community internal market and plan strategies for it. The result is a widespread fear that the successes of the 1980s may well be in peril in the 1990s.

Pessimists dwell on the modest dimensions of Italian companies (there are only four Italian groups in Fortune's top 100 world companies and only nine in the top 500 non-US industrial companies), their lack of international reach, the poor Italian record in research and development, dependence on imported technology, under-developed and inefficient financial services, stubbornly high domestic inflation and interest rates, to say nothing of woefully inefficient public services.

A final source of anxiety is public debt and the budget deficit, which will guarantee relatively high national interest rates for much of the 1990s.

Of all Italian companies, Fiat, the largest, faces potentially one of the most serious tests after 1992. Though one of Europe's lowest-cost car producers, it is uncomfortably dependent on the Italian market, which accounted for 62 per cent of its car sales last year.

THE EUROPEAN MARKET

Fiat's strong domestic position is partly due to import restrictions, which have limited Japanese car-makers to less than 1 per cent of the market. Turin wants the EC to negotiate a lengthy transition period before the Japanese are allowed to move freely into Italy. But the company knows it must lose domestic market share to Japan, as it is now doing to other European producers. This year its home market share has slipped from around 60 per cent to 53.

Mr Cesare Romiti, Fiat's managing director, has looked deeper into the difficulties many of his companies have in competing with Japanese rivals and concluded that their response must be wrapped around a concept of new practices and relationships at the workplace which he calls "total quality".

Gloom is a spur to achievement in Italy, where a "backs to the wall" syndrome is frequently needed to forge the political and social consensus required to achieve real change. This is now producing encouraging progress in legislating for financial market and banking reforms specifically designed with the internal market in mind. But political blockages are still holding up a managerial reorganisation of state telecommunications and a long overdue reshuffling of public sector companies whose activities overlap, but which are parked in separate holding companies controlled by rival party political fiefdoms.

In big Italian industry, both public and private, it is possible to find much more confidence about the future than may be apparent from the anxious and weighty reports of Confindustria. There is rather more uncertainty in the small and medium-sized sector, which was the engine of employment and wealth creation in the 1980s but which now fears that its lack of size may be penalised in the future.

In private, however, a senior public sector manager said recently that there were no reasons to believe the mix of individual qualities, public policy and anomalous structures which had served Italy so well in the 1980s would fail to do so over the next 10 years.

Why, he observed, should Italian companies suddenly lose a capacity to export which over the past 20 years has enabled them to defend their share of world manufacturing trade more successfully than their German, French or British rivals? He also believed that that explained Italian industry's relative backwardness in forging international alliances. As successful exporters, many private companies have not felt the need for foreign partners, while state-owned groups have been discouraged from seeking them by the politically ordained priority of domestic job creation.

But the recent growth of cross-border mergers and acquisitions and joint ventures confirms that both reticence and restrictions are becoming less of an inhibition. That famous Italian flexibility which attaches more importance to pragmatism and speed of reaction than to forward planning may also be a positive virtue in forming international partnerships.

"Flexibility means we adapt to partnerships better and that we are much more prepared than our competitors to take minority participations," said the senior manager. He cited the many minority stakes in aerospace companies held by the state-owned Aeritalia (shortly to be re-named Alenia after combining with Selenia to create a more powerful international presence in aerospace and defence electronics).

He acknowledged that Italy's research and development weaknesses were serious but that the practical impact was not as grave as it might seem.

The proportion of gross national product dedicated to R&D may be smaller than say, the UK's, and the Italian capacity for creating new technologies correspondingly weaker. "But we have a significantly better capacity for applying and developing technology than does the UK. Innovation also requires managerial professionalism just as much as it does research," he added.

Many of these points have been amply supported by Professor Michael Porter of Harvard University in his book "The Competitive Advantage of Nations". It suggests that the abundance of small and medium businesses competing for the domestic market is the basis of Italy's exporting vigour, that the biggest companies with a dominant market position are much less competitive and that the manufacturing sectors in which the state plays a major role as a producer, purchaser or supplier are the least competitive of all.

Prof Porter also believes Italy's lack of strong capital markets has held back the growth of many companies. This is hardly surprising given that most small business will pay 7 or 8 percentage points more for credit than does Fiat. According to a recent report from the Italian research institute CER, financing difficulties also help explain small companies' relative backwardness in applying new technologies.

All the evidence suggests, however, that the backwardness increases the further south you travel in Italy. The existence of "two nations" is probably the core of the industrial, economic and political problems facing the country in the 1990s. It takes real pessimism to believe the north will fail to prosper in more open markets. Unless, that is, the southern millstone imposes such costs in transfer payments as to steadily erode the north's competitive strength.

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INTERNATIONAL NEWS

Province probes charges against Bhutto regime

By Farhan Bokhari in Lahore

PAKISTAN's interim government yesterday took a further step against ousted Prime Minister Ms Benazir Bhutto when Mr Jam Sadiq Ali, the caretaker Chief Minister of Sindh Province said his government had started investigating 21 cases of alleged financial irregularities against Ms Bhutto's government.

This follows attempts by Pakistan's federal government to file charges against Ms Bhutto and her colleagues at 11 special courts established to hear allegations against the former government.

Mr Ali said in Islamabad that investigations had been completed in 16 of the cases, which were now being sent for prosecution.

Meanwhile, a special court in Lahore hearing allegations of misconduct against Ms Bhutto yesterday adjourned until Sunday to allow government prosecutor more time to produce further evidence in support of his case.

The prosecutor, Mr M.B. Zaman, began his arguments on Saturday, alleging that Ms Bhutto helped business interests close to her husband, Mr Asif Ali Zardari, to seek planning permission and land at reduced rates to build a hotel and golf course in Islamabad.

The proposed site in the widely publicised Lake View hotel case had been set aside for construction of a national athletics centre, the prosecutor said. He argued there was prima facie evidence that Ms Bhutto used her influence.

Repeatedly referring to the former Prime Minister as B.B., he cited documents from Islamabad's Capital Development Authority – the body which performs municipal functions and grants planning permission – in support of his argument that there was an attempt to rush the Lake View case through.

However, Judge Rashid Aziz said that he wanted further evidence, such as sworn affidavits from witnesses, to prove Ms Bhutto's involvement.

The prosecutor asked for a week-long adjournment until next Sunday. Earlier he said that he would produce statements as well as witnesses in support of his argument.

Death climbs aboard as South Africa seeks refuge

Patti Waldmeir talks to a survivor of the Soweto train massacre who was hoping to reach sanctuary

MRS Anna Maleka thought she was on her way to safety when she boarded the 5pm train to Soweto last Thursday. Now she is lying in Ward 5 of the J.G. Strijdom Hospital in Johannesburg, with a stab wound which has punctured her lung and a bullet wound which, she thanks God, is not too serious.

"It's too much now. It's got to stop. We are dying for nothing," she whispers, an expression of pain and fear on the face which normally wears a gap-toothed smile.

Anna collects the post and does other odd jobs for the Financial Times and other foreign newspapers in Johannesburg; we know her as a cheerful, plump figure in a pink dust-coat, who never brings her troubles to the office.

Until recently, that is. For over the past month, Anna's life has turned to nightmare. Caught up in the worst violence South Africa has ever seen, she is confused and utterly terrified.

She does not belong to either of the two groups involved in much of the fighting which has left nearly 800 people dead since August 13 – the African National Congress (ANC) and Inkatha, the Zulu political party. Anna Maleka is a normal mother of two, working to support an unemployed husband and to better her life in Soweto.

But the carnage has touched her, none the less. Dozens of people have been killed at Naledi, the suburb of new homes on the edge of Soweto where Anna lives.

Unidentified men have sped through the township, shooting at random; police have teargassed residents, killing the Maleka family dog in the process. By last Thursday, Anna had had enough of sleepless nights and the sound of gunfire. She wanted a refuge.

Rosie, Anna's sister, lives at Mafolo – an older and poorer area of Soweto, but one untroubled by the recent battles. When Anna left the office last Thursday, she was headed for Mafolo: "I said to myself, I am going to that safe place," she now says ruefully.

Anna and her fellow commuters on Naledi-bound train 9436 had just finished praying – as they do every night on the journey from work – when they heard shooting.

"We tried to hide under the seats," she explains; other passengers threw themselves from doors and windows. As they lay on the floor, four young men came through the carriage, stabbing at random.


Zulu headmen sing war songs in support of their king at a rally near Johannesburg yesterday

Anna, lying face down, did not see her attacker or his weapon; but, herself a Zulu, she is sure the gang were Zulus.

Several people in her carriage, including her neighbour, were killed in an attack which left 26 dead and over 100 wounded.

Anna was taken to the J.G. Strijdom hospital, a formerly white hospital where Afrikaans is the lingua franca and the sisters are white. Like other white hospitals, it was fully opened to all races last May. "I'm so glad I'm not at Baragwanath," she says several times, filled with relief that she has avoided a stay at Africa's largest hospital, in Soweto, where the nurses are harassed and the care is adequate but unfriendly.

The sisters of Ward 5, on the other hand, are attentive and kind: they ease Anna's pain when they can do, and comfort her when they cannot. They are an advertisement for the new South Africa.

But the past few weeks have shown another side of the new South Africa: senselessly brutal, politically intolerant and riven by tribalism. Reasonable people fear the country could slip into civil war.

Anna says she does not know how to stop the violence, because she does not understand why it started in the first place. But she knows this is a precarious moment in the transition to a post-apartheid future.

She, and millions like her, can only hope that South Africa's leaders muster the political will to stop the killing. Unless they do, life in the new South Africa may prove grim indeed.

Zambian miners back democracy

By Mike Hall in Kitwe

AN ESTIMATED 70,000 people attended a pro-democracy rally in the Zambian copper mining town of Kitwe at the weekend, as leaders of the movement warned of mass action unless the government agreed to their demands.

Turnout at the third national rally organised by the Movement for Multi-Party Democracy (MMD) showed substantial support on the copper belt, which accounts for over 90 per cent of the country's export earnings. Miners' leaders said they were fully behind the movement.

The MMD has gained confidence as the extent of popular support becomes clear. It says a referendum is unnecessary and demands that the constitution be changed before December to allow opposition parties to form.

Mr Frederick Chiluba, chairman of the Zambian Congress of Trade Unions, told supporters in Kitwe that if the government stalled on implementing reforms workers would demand tougher measures.

Political observers say that if the ruling party ignores demands by the pro-democracy movement, civil disturbances could ensue.

Claims of fraud in Gabon poll

ANGRY voters alleging foul play smashed ballot boxes and closed Libreville's biggest polling station in Gabon's first multi-party election yesterday, Reuter reports from Libreville

Polling officials fled and crowds of young voters ransacked Libreville City Hall, where polling was taking place.

Scores of voters said the boxes were already stuffed with ballot papers for President Omar Bongo's Democratic Party of Gabon (PDG). "I came here at 6am before voting started and when I went in the box was already full. Where did the ballots come from?" asked an enraged youth.

A candidate for the largest opposition group, the Morena Boucherons party, said he saw a truck from the presidential guard bring people into the polling station before balloting started.

Bands of youths scooped up fistfuls of ballot material and scattered them in torrents across City Hall's lawns. The hilltop hall still bears the scars of an earlier outbreak of trouble on Saturday, when frustrated would-be voters smashed its windows during a desperate scramble to beat the deadline for collecting their voting cards.

More executions in Nigeria

A FURTHER 27 soldiers have been executed for their part in a failed coup attempt last April, bringing the number executed to 69 over the past seven weeks, writes William Keeling in Lagos.

The latest executions took place on Thursday but were not announced until the weekend. The executions followed a retrial ordered by the Armed Forces Ruling Council, Nigeria's executive body, of 31 soldiers. The executions were carried out despite appeals for clemency by the British government and Amnesty International, the London-based human rights organisation.

Concern had been expressed at the fairness of the trials by special military tribunal under which the soldiers were unable to choose their own defence counsel, and were not allowed a right of appeal, except to the military government.

Although no new trials are planned, at least 10 soldiers thought to have led the coup are still at large, as well as two civilians who are suspected of having financed the attempt.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	Aug '90	Jul '90	Jun '90	Aug '89	% change over previous year
Japan	108.2	108.0	107.8	105.0	+ 3.0
W Germany	107.1	106.8	106.8	104.2	+ 2.8
UK	135.4	134.0	133.9	122.4	+ 10.6
France	117.0	116.3	116.0	113.0	+ 3.5
Belgium	111.3	110.7	110.3	107.8	+ 3.2
Netherlands	103.9	103.5	103.2	101.5	+ 2.4
	Jul '90	Jun '90	May '90	Jul '89	
US	121.2	120.8	120.1	115.6	+ 4.8

Source: (except US) Eurostat

Fears grow at Gatt talks over chances for liberalising services

By William Dullforce in Geneva

BUSINESSMEN and trade negotiators warned at the weekend of a critical situation in the international talks on liberalising the $600bn-a-year trade in services.

Their warnings came as Mrs Carla Hills, the US Trade Representative, arrived in Geneva on a two-day visit to the forum of the flagging Uruguay Round trade talks.

Accompanied by members of the top-level US private sector advisory committee on trade policy and negotiations, headed by Mr Jim Robinson, chairman of American Express, she has come to assess the status of the talks, which encompass 14 other areas as well as services.

Private sector representatives from a coalition of service industries in the US, the European Community, the European Free Trade Association, Australia and Hong Kong voiced fears late on Friday that there might no longer be time to reach agreement on liberalisation of services before the Round ends in December.

The US and EC governments had still not taken basic political decisions on the scope of the agreement and on how it should function, they complained in a joint communiqué after they had spent two days talking to negotiators and officials of the General Agreement on Tariffs and Trade (Gatt).

Negotiators confirmed that the lack of decision-making in Washington and Brussels was preventing delegations from making the initial commitments to liberalisation without which the framework agreement under negotiation for four years would be meaningless.

The most urgently needed decision must come from Washington and concerns the coverage of the services agreement. Originally, the US called for a General Agreement on Trade in Services (Gats) embracing all services.

However, the US shipping and civil aviation industries, which can call on considerable support in Congress, wanted their sectors excluded from an international agreement.

Now, AT&T and other privately-owned US basic telephone networks, concerned about competition from subsidised, foreign suppliers of public networks, are also pressing for exemption for telecommunications.

Other countries, some of which had earlier encountered US opposition to their wishes to retain protection for infant services, have reacted strongly to the change in the US position on coverage.

A paradoxical situation has arisen. For a long time developing countries resisted US pressure for negotiating a fully fledged Gats. Now that many of them are ready, even keen, to reach agreement, the US is retreating from its original objectives.

A formal meeting of the group negotiating on services starts today.

Talks also resume today on textiles and clothing, with the large majority of countries determined to negotiate a liberalising programme that would ignore the US proposal for a system of global import quotas.

Mitterrand and Kohl to heal rift over high definition TV

By William Dawkins in Paris

FRANCE and West Germany are ready to patch up a rift which had threatened to undermine the credibility of the European Community's efforts to establish its high definition television (HDTV) standard against the rival Japanese system.

President François Mitterrand and Chancellor Helmut Kohl are expected to reach an accord to widen the use of D2-Mac, the EC's advanced television standard, at a summit in Munich today and tomorrow.

West German broadcasting companies alarmed the French last spring by threatening to use enhanced versions of existing standards instead of D2-Mac, the half-way step to full HDTV. Bonn will now commit its broadcasting authorities to D2-Mac, say French officials.

In return, Mr Mitterrand is expected to promise that one of the two French public channels – Antenne 2, which has a 24 per cent audience share – will soon be broadcast in D2-Mac as well as in the existing norm, say government officials. Bonn had wanted evidence of French commitment to D2-Mac before following suit. The only D2-Mac broadcasts now available in France are a pay television channel and a culture programme transmitted via the TDF-1 public satellite by Canal Plus, an independent broadcaster.

This will remove a cloud from a joint FFr20bn (£2bn) HDTV development project by Thomson Consumer Electronics (TCE), the French state-owned group, and Philips, the Dutch electronics giant, which is the main EC effort to beat Japan in the race for the European HDTV market.

Thomson had been worried that German backsliding would seriously hamper Europe's ability to gain widespread acceptance for D2-Mac and HD-Mac, the EC standard for full HDTV. Both standards are incompatible with the rival Japanese system.

TCE has pinned its hopes for the future on HDTV and is planning to bring out at the end of the year a FFr30,000 advanced television set with a 16x9 ratio screen, able to receive the cinema quality pictures and compact disc clear sound carried on D2-Mac.

The French Government will ask Canal Plus to allow Antenne 2 to take over a TDF-1 channel which is now being used for Canal Plus broadcasts to Germany.

Canal Plus's German programmes would be transmitted on a German public satellite, TV/SAT2. So Antenne 2 would be transmitted simultaneously in old standards on ground-based networks and in D2-Mac via satellite. The Government is planning to pay Antenne 2 an estimated FFr150m for the cost of duplicating broadcasts.

François Mitterrand (left) and Helmut Kohl will agree to widen the use of the EC's advanced television standard

Moscow talks hailed by Israel

By Hugh Carnegy in Jerusalem

ISRAELI officials yesterday expressed strong satisfaction over a milestone visit to Moscow at the weekend by two cabinet members, which included talks with President Mikhail Gorbachev, the first meeting between a Soviet leader and Israeli ministers for 23 years.

The Foreign Ministry described the previously unannounced trip, made on a Soviet invitation, by Mr Yitzhak Moda'i, the Finance Minister, and Mr Yuval Ne'eman, the Science and Energy Minister, as a big step forward in relations between the two countries.

Officials remained cautious about predicting an imminent restoration of full diplomatic relations, cut off by Moscow after the 1967 Six Day War.

They said the Soviet Union apparently still insisted on attaching political conditions to such a move. One of these would be that Israel agree to an international conference on the Arab-Israeli conflict.

But the government is greatly encouraged by the way Mr Gorbachev has moved to bridge the gap with Israel – and by the same token, has moved away from Arab allies hostile to Israel, particularly Iraq and, to a lesser extent, Syria.

Officials are now looking to a meeting at the UN later this month between Mr David Levy, the Foreign Minister, and Mr Eduard Shevardnadze, his Soviet counterpart, to further the process.

Mr Moda'i's and Mr Ne'eman's 2½-hour talks with Mr Gorbachev included discussion of diplomatic ties, the Gulf crisis and the issue of mass immigration by Soviet Jews to Israel, as well as a range of mutual economic concerns.

These included a joint project, which also involves the US, to build commercial cargo aircraft using Soviet bodies, Moscow's wish for barter deals under which the Soviets would receive Israeli fresh fruit and vegetables, and the possibility of Israel importing Soviet oil.

Another project apparently covered was the sale to the Soviets of portable plastic vacuum crop storage units developed by an Israeli kibbutz collective.

● The Tel Aviv Stock Exchange was closed yesterday, normally a trading day, to give members time to seek clarification of a new 20 per cent tax on profits made in the market announced as part of an economic regeneration plan by Mr Moda'i last week. The economic proposals included reforms of the labour and capital markets and were designed to generate sufficient private sector growth to cope with a huge influx of Soviet Jewish immigrants.

Buenos Aires telephone workers end bitter strike

By John Barham in Buenos Aires

BUENOS AIRES telephone workers called an end to their increasingly bitter strike at the weekend after a rowdy assembly conceded almost total victory to the Peronist government of President Carlos Menem which had refused to negotiate with the strikers.

The 14-day strike was seen as a last-ditch effort to interfere with the privatisation of ENTel, the government telephone company, later this month.

President Menem plans to privatise most of Argentina's chaotic and overstaffed state companies, which together lost $5.5bn in 1989.

The telephone workers' union struck on September 1 to support a claim for a 35 per cent pay increase. The strike rapidly grew into a confrontation between the hardline Peronist faction opposed to the president's privatisation policies and ENTel's non-Peronist administrator, Ms Maria Julia Alsogaray.

Ms Alsogaray has presided over ENTel's privatisation, which should be complete by the end of this month with its transfer to two groups of foreign banks led by Citibank and Manufacturers Hanover.

The sale of ENTel will be President Menem's first major privatisation since he took office last year.

Last month, Mr Nicolas Gallo, the former president of ENTel, resigned after telephone workers joined a wave of strikes in the public sector. Aerolineas Argentina, the state-owned airline, is to be sold later this year to a consortium led by Iberia, the Spanish airline, and the owners of Austral, Argentina's largest domestic carrier.

US growth 'positive' Brady says

By Peter Riddell, US Editor in Washington

THE US economy should avoid a recession and still show positive growth, Mr Nicholas Brady, the US Treasury Secretary, forecast yesterday.

He was speaking as senior Administration officials and Congressional leaders resumed their 10 day long budget talks at Andrews Air Force Base south of Washington with a new deadline of reaching agreement by midnight tonight.

The Administration hopes that an agreement will quickly be followed by Federal Reserve moves to cut US interest rates and help sustain economic activity.

Mr Brady said that, while the economy was growing at a slower rate than the near 1.5 per cent annual rate of the first half of this year, its "underlying strength" was greater than suggested by many economists.

He confirmed the latest estimate of the Federal deficit for the coming 1991 fiscal year was $250bn and that the budget negotiators were agreed on a first year reduction of $50bn as the first part of a $500bn five year cut. The Gramm-Rudman statutory targets for reducing the deficit, to $64bn in 1991, will be changed.

Before the resumption of talks yesterday, Mr Tom Foley, the Democratic House Speaker, said that by tonight there might well be an agreement. To concentrate minds and avoid returning to Capitol Hill, Congressional leaders have agreed to suspend votes in the Senate and House until the talks are completed.

One of the main obstacles to a deal is the Administration's desire for a cut in capital gains tax and the Democrats' call for offsetting tax increases on the better-off. Mr Foley urged "a balancing of burden-sharing by high-income, wealthy taxpayers who are going to get the bulk of the benefit of any capital gains tax reduction."

Suharto critic released from jail in Indonesia

A CROWD of 1,000 greeted one of Indonesia's leading dissidents, Hartono Dharsono, when he was freed yesterday after more than five years in jail on subversion charges, Reuter reports from Jakarta.

Students sang patriotic songs and some shouted "merdeka" (freedom) as the 65-year-old general was whisked away from prison with his family in a police-escorted convoy.

Dharsono, a former secretary general of the Association of South East Asian Nations, was an outspoken critic of President Suharto. He was arrested at the end of 1984 and slightly more than a year later, after one of Indonesia's most keenly watched trials, he was convicted of fuelling anti-Government sentiment.

He was released, for good behaviour, before the end of his seven-year sentence.

One human rights activist said Dharsono's views had not softened during his time in jail but it was not known if he would return to the political arena.

Among bouquets of flowers given to him was one with the message: "Congratulations to our new president."

Dharsono was met by members of a dissident group of prominent Indonesians, many of them former generals and cabinet ministers, who last month called on President Suharto to allow more democracy and to step down when his current five-year term ends in 1993.

The President next month celebrates the 25th anniversary of the crushing of an abortive coup attempt in 1965 that resulted in annihilation of what was then the world's third-largest Communist party and his own rise to power.

His government has since kept a tight rein on political expression and moved swiftly to stamp out signs of opposition. But in recent weeks it appears to have been encouraging more open expression.

CONTRACTS & TENDERS

PREQUALIFICATION EDICT DESIGN AND CONSTRUCTION WORK FOR THE LPG COMPLEX AT RIO GRANDE/RS

PETROBRAS, through its Engineering Service (SEGEN), hereby informs that it shall conduct an international process of prequalification for comapnies interested in performing design detailing, construction and assembly work, with supply of materials and equipment, for its LPG COMPLEX at Rio Grande, a coastal city in the State of Rio Grande do Sul.

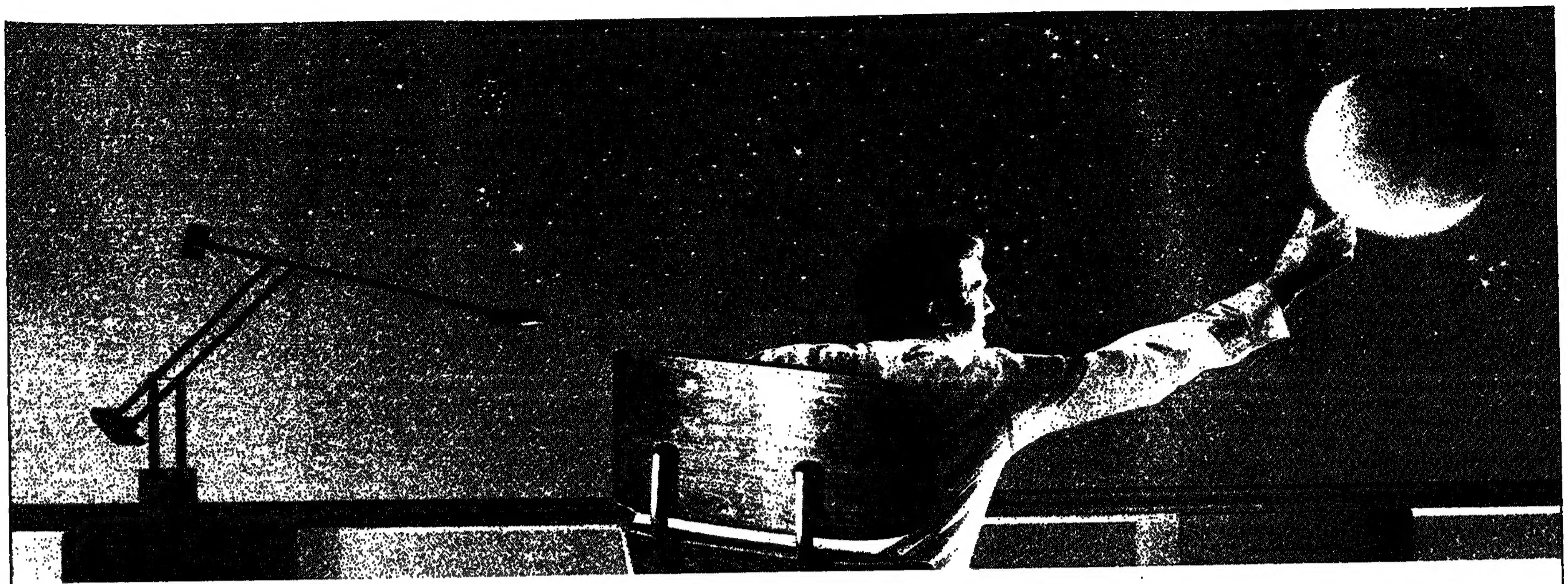
This Process is intended to qualify companies capable of performing said services upon the submission of a feasible financing schedule.

The companies interested must request the prequalification documents no later than October 05, 1990, by means of telex to be addressed as follows:

PETROBRAS/SEGEN
Telex No. 40491 PETR BR
Re: Prequalification for Contracting the Construction of the LPG COMPLEX at Rio Grande.

Said telex shall include the interested company's full address, for purposes of receiving the above mentioned documentation.

PETROBRAS hereby informs that participation in this prequalification shall not assure a future invitation to participate in the Price Inquiry.



Hunt for policeman kidnapped by IRA

By Our Belfast Correspondent

SECURITY FORCES on both sides of the Irish border were last night searching for a policeman kidnapped by the IRA at an illegal roadblock in South Armagh.

Constable Louis Robinson, aged 42, who has been on sick leave for three years because of severe depression, was abducted by up to 12 armed and masked terrorists, who set up the checkpoint near the main customs post at Killeen.

The kidnapping happened around 7.30pm on Saturday, as PC Robinson and five prison officers were returning from a fishing trip in the Irish Republic. As their minibus was stopped by the terrorists, three of the prison officers escaped. The other two were captured and severely beaten before being released.

Security forces immediately sealed off a stretch of the border at Killeen as an extensive search got under way. But there was still no sign of the police officer last night.

PC Robinson's wife, Anne, made an emotional appeal for his life and called on his abductors to release him because he was a sick man.

There was speculation that because the officer had been on long-term sick leave he would be of no intelligence value to the IRA.

Tory group proposes replacing welfare state

By John Mason and Philip Stephens

THE WELFARE state should be replaced by a system of social insurance run by private agencies, an influential right-wing Tory pressure group proposes.

In a policy booklet intended to increase the radical content of the next Conservative election manifesto, the No Turning Back Group of Tory MPs also calls for further privatisations, but strongly rejects further developments towards a federal Europe.

The policy proposals, published today, are an attempt to counter calls within the party for a future Tory government to slow the pace of change and consolidate upon previous reforms.

Reports of the booklet's contents provoked an immediate political row, with Labour claiming they marked Mrs Margaret Thatcher's "hidden agenda" if she won a fourth term in office.

Some Tory MPs also voiced disquiet that the group, which counts among its members one Cabinet member and a dozen middle-ranking and junior ministers, was trying to pre-empt decisions on the manifesto.

Although they represent only a small minority of the parliamentary party, the No Turning Back MPs are thought to exercise considerable influence within Downing Street, and have good contacts with Mrs Thatcher's policy unit.

Ministers, however, will be at pains to emphasise that the proposals on the welfare state, in particular, are potentially far too unpopular to be included in the manifesto.

The group's most radical suggestion is the gradual replacement of the welfare state with a privately managed insurance system under which individuals would be required to insure themselves for old age, sickness and unemployment.

Those unable to meet insurance premiums would pay through compulsory participation in a state-run community work scheme.

The group also supports the Prime Minister's opposition to a federal Europe. It rejects surrendering further political power to the European Community, warning that the House of Commons must not decline into a "glorified county council."

Britain signed the Single European Act only to enable the single market to be created, it argues. The Government should "draw a line" under the act once the single market is in place, and use its veto to resist further directives that impose on internal affairs.

The group firmly rejects a European single currency and central bank. Should other EC member states proceed towards monetary union, Britain should remain outside and develop as "a kind of free port" linking Europe with the rest of the world.

It also expresses strong reservations about Britain's entering the exchange-rate mechanism of the European Monetary System, warning of "much danger" in shackling national currencies so they cannot conform to market principles.

The group demands the continuation of the Government's privatisation programme and lists British Coal, London Underground and British Rail's Inter-City, freight and parcels services as the next candidates.

New motorways could be built by the private sector, financed by the introduction of road pricing.

Choice and Responsibility – The Enabling State. The No Turning Back Group, Conservative Political Centre. 32, Smith Square, London SW1. £3.

Survey gives awards to BA and Virgin

By Raymond Snoddy

BRITISH Airways and Virgin Atlantic have won the top awards for the third consecutive time in the annual survey by Business Traveller magazine.

BA won the title of Best Airline with 28 per cent of 1,400 travellers putting it first. Lord King, BA chairman, said the award reflected the "recognition and the loyalty business travellers have for our services worldwide." Swissair was second and Singapore International Airlines third.

Mr Richard Branson's Virgin Atlantic was voted best in the long-haul business class.

Ashley Ashwood

Lord King: award recognises loyalty of business travellers

Labour power plan threatens sector profits, broker warns

By David Thomas, Resources Editor

THE FINANCIAL performance of the electricity industry in the private sector could be significantly affected if Labour Party policy was implemented, according to a report from Cazenove, the stockbrokers.

Cazenove is one of the joint brokers to the 12 regional electricity companies in England and Wales which are due to be privatised in November.

The company has published a research document on the industry, pointing out that Labour Party policy is to return to some form of public ownership the National Grid Company (NGC), which will be responsible for running the national transmission network and is to be jointly owned by the 12 regional companies after privatisation.

Cazenove warns that "NGC plays a central role in the electricity supply industry and, if it becomes subject to public-sector control, then the development of the generating companies [National Power and PowerGen] and the regional electricity companies could be significantly affected".

In particular, public ownership of NGC might affect the dividends it pays to the regional companies and the charges it levies on the generating companies.

Cazenove says the regional electricity companies' profits are vulnerable to falls in electricity demand, caused by factors such as economic downturns, unusually mild weather, moves by large industrial customers towards generating their own power, and improved energy efficiency.

It estimates that a 1 per cent change in demand will lead to just under a 4 per cent change in pre-tax profits for the industry as a whole.

Nevertheless, Cazenove concludes that the regional companies' core distribution business "represents a low-risk, stable activity".

By contrast, UBS Phillips & Drew and Laing and Cruickshank, two of the few large City firms not linked as brokers to the electricity companies, have both warned that regional electricity companies could be subject to significant risks in the future. They have argued that the companies need to be floated with a high yield to compensate for such risks.

Teeside power station proposal, Page 19

Party looks at fresh structure for London

By Ralph Atkins

A SENIOR Labour Party committee is expected to approve today a restructuring of the party in London after its weak showing there in the May local elections.

A review by Mr Larry Whitty, Labour's general secretary, has concluded that large-scale organisational changes are needed if the capital is not to hold back the party at the next general election.

The report follows widespread concern within the party that action should be taken to correct Labour's poor image in London.

In May, the swing to Labour was about 5 per cent in London, compared with 11 per cent at the national level. The party lost control of Brent and Ealing councils and failed to take either Westminster or Wandsworth from the Conservatives.

Euro-MPs warn of single-market risk

By John Mason

A STRONGER European industrial, regional and social policy must be developed alongside the creation of the single market, Britain's Labour Euro-MPs argue in a report published today.

Left to itself, the single market will favour economically strong areas within the EC at the expense of weaker, peripheral areas, many of which are in Britain, the MEPs say in their report.

"It is essential that development of the single market does not compound regional inequalities, causing massive emigration from poorer regions and inefficient overheating in richer regions," the report says.

Without a strengthened European industrial policy, Britain as a whole risked becoming a backward region within the community.

The MEPs call for greater use of EC structural funds to promote industrial development and modernisation, including education, training, transport and telecommunications, in the regions.

The education strategy should promote the development of highly skilled workforces in the peripheral areas.

That should be part of an industrial strategy based upon the production of high-technology goods as distinct from merely cutting labour costs.

The cost of the strategy should be met by scaling down the Common Agricultural Policy and addressing overproduction of food, the MEPs say.

The CAP should be replaced by a European Good Food policy, aimed at serving the interests of consumers.

The MEPs also emphasise the need for full implementation of the existing Social Charter and call for a "stage two" of the charter to extend employee protection.

That would bring protection to groups such as pensioners, and guarantee a minimum income. It would also extend employee rights to cover consultation about a company's plans, particularly regarding issues such as takeovers and mergers.

The New Europe. European Parliamentary Labour Party. 2 Queen Anne's Gate, London SW1.

Universities raise more private cash

By Norma Cohen, Education Correspondent

BRITISH universities have been increasingly successful in raising money from non-government sources over the past five years, according to the Universities' Funding Council, the quasi-public body that oversees universities.

Statistics published today in the UFC's Universities Statistical Record show that between 1985 and 1989, income received by them from all sources rose far faster than that from the Exchequer alone.

The percentage of university income provided by the Exchequer fell from 59 per cent in 1985 to 53 per cent in 1989. A similar trend also emerged in government and private-sector research grants over the same period. In 1989, the state provided half of all research funds, against 60 per cent five years earlier.

The main increase in research funding came from UK-based charitable bodies and overseas sources such as the EC. The sum from private industry also doubled over the past five years, to £92m in 1989.

Oxford University obtained £7.22m of its budget (5.5 per cent) from endowments, donations and subventions in 1989, while Cambridge trailed with £2.43m – or only 3.4 per cent of its budget.

Among those more successful than Cambridge was Nottingham, which raised 4 per cent of its budget from endowments, while Durham was able to raise 2.8 per cent of its budget in that way.

Oxford and Cambridge remain less dependent than most universities on Exchequer funds as a percentage of income, receiving 43.6 and 48.2 per cent from that source in 1989.

NEWS IN BRIEF

Call to curb police calls on press

RULES ON police requisitioning of pictures and notes from journalists for use in criminal prosecutions need to be tightened, according to a new study for the British executive of the International Press Institute.

Mr John Wilson, controller of editorial policy at the BBC, says that police demands for journalistic material of everything from football violence to poll tax riots have become increasingly frequent.

"Journalists in Britain are being required too often and too readily to serve the purpose of law enforcement in a stressed and divided society," Mr Wilson argues in the discussion paper.

Airports warning

THE UK aviation industry is in danger of losing out because of inadequate airport and airspace capacity as Europe's centre of gravity moves east, a study by Touche Ross, management consultants, released yesterday warns.

The report indicates that air passenger volumes to and from eastern Europe are expected to increase between four and six-fold by the year 2005.

Touche Ross also forecasts in a separate study that $500bn (£26bn) will be invested in eastern Europe over the next five years.

Prison reform call

FAR-REACHING reforms of the prison system were proposed by the Penal Affairs Consortium, a body made up of 18 organisations concerned with penal affairs.

The proposals, submitted to Lord Justice Woolf's inquiry into prison disturbances, include a code of minimum standards for prisons, statutory requirements governing prisoners' work, training and preparation for release, improved staffing ratios, a prisons ombudsman, an overhaul of the prison disciplinary system and tighter restrictions on the courts' power to imprison.

Chemicals buy-out

GELPKE AND Bate Processing, a chemicals recycling business employing 65 people in Sunderland in north-east England and 52 in Rye, East Sussex, has been bought by its management for £10m and will trade as Chemical Manufacturing and Refining (CMR).

The buy-out has been led by Mr George Bingham, CMR's managing director, supported by four senior managers. The investment syndicate was led by Investors in Industry (3i), the capital provider owned by the clearing banks and the Bank of England. CMR clients include ICI and Ciba Geigy.

Trade bodies merge

THE TRADE associations representing the UK electronics and telecommunications industries are to merge later this week with a view to speaking with a single voice on policy questions.

The two groups are the Electronics and Business Equipment Association and the Telecommunication Engineering and Manufacturing Association.

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UK NEWS

Low profits and failures predicted for retailers

By John Thornhill

TRADING conditions for UK retailers will continue to deteriorate over the next few years and the sector will be characterised by a string of dispiriting company results and corporate collapses, according to a new forecast by Verdict, the retail consultants.

Squeezed between slower rates of sales growth and rising costs, many retailers will face downward pressure on profit margins until 1993.

Even after interest rates have been reduced and trading picks up, companies will still struggle to rebuild their businesses and restore profits.

Verdict estimates that during the next five years retail sales will grow by 44.8 per cent to £178bn by 1994. That compares with a 52.5 per cent increase to £123bn during the previous five years.

The report suggests that on a like-for-like basis, sales growth will be 8.1 per cent during the next five years compared with a 13.9 per cent rise in the previous period.

Operating costs, however, are predicted to rise at well in excess of the rate of inflation.

The uniform business rate is expected to increase the average national retailer's rates bill by about 15 per cent a year. Many retailers will still have to meet high rents, which are reviewed only every five years. Labour costs will remain high.

The report suggests that the only way to combat the vicious cycle of escalating costs is to improve productivity and generate more business from existing space and staff.

Verdict identifies Marks and Spencer, the John Lewis Partnership, and Argos as particularly strong organisations in that regard.

The consultants emphasise that the gloomy scenario does not apply equally to all areas of the retailing sector nor to all retailing companies.

The DIY, womenswear and jewellery markets will grow strongly, they forecast, and the food sector will continue to prove resilient.

Verdict suggests that the gap between Sainsbury's, Tesco and Argyll Group and their smaller competitors will continue to widen and the progress of such national grocery chains is unlikely to be hindered by the rise of the discount chains.

The economic consequences of the Gulf crisis will be very damaging to British retailing if they are prolonged, but the report has based its calculations on the assumption that the effects will be short-lived.

Retailing 1994. Verdict Research, 112 High Holborn, London. WC1V 6JS. Price £950.

Merchant navy opens publicity campaign

By Richard Tomkins, Transport Correspondent

BRITAIN's much shrunken shipping industry yesterday launched a month-long campaign to publicise its contribution to the economy and draw attention to its plight.

Sir Jeffrey Sterling, chairman of the Peninsular & Oriental Steam Navigation Company and president of the General Council of British Shipping, told about 250 guests aboard the SS Canberra at Southampton that the merchant fleet was a vital national asset.

The shipping industry, he said, contributed more than £4bn a year to Britain's invisible earnings and another £1bn in the form of maritime-related earnings in the City.

The industry also had a strategic role to play in support of the armed services which needed no emphasis in the context of the Gulf crisis, he said.

The campaign, called British Shipping Month, is intended to help reverse a decline in the British merchant fleet, which has seen the number of UK mainland-registered vessels dwindle from 1,275 to 361 over the past decade.

Two of the main reasons for the decline are the wide availability of tax breaks for shipping companies in competing countries and the trend towards the "flagging out" of vessels to offshore registers or to countries such as Liberia.

The industry hopes to persuade the Government to encourage investment in new ships by tax concessions enabling the cost of vessels to be written off against profits.

It is also eagerly awaiting the Government's response to a special report on the shipping industry's plight submitted on Friday to Mr Cecil Parkinson, Transport Secretary.

The shipping industry says the merchant fleet needs to be sustained because of its essential role in transporting supplies in emergencies, but opponents of subsidies say chartering on the open market is an adequate substitute.

The Gulf crisis may prove a test of the arguments after last week's decision to send armour to Saudi Arabia.

Editorial Comment, Page 18

Call for depressio to cure inflation

By Peter Norman, Economics Correspondent

THE GOVERNMENT was given a stark warning yesterday that it will not be possible to cure inflation in Britain without a depression.

Sir Charles Carter, an economist and president of the independent Policy Studies Institute, said inflation would not be checked if the Government also pursued an objective of keeping output rising and unemployment low.

"The many column inches in the press which have suggested that the Chancellor of the Exchequer should seek to sedate the economy without pushing it into depression have been misdirected," he said.

"Creating a depression – with all its waste of potential output and social injustice – is the only policy likely to be effective in checking the inflationary spiral."

He said that inflati would only be checked when emplo s and workers were afraid to pursue restoration of their real incomes be se of growing unemployment, bankru ies and depression of trade.

Last Friday, the Government announced that the ann inflation rate in August had risen to per cent, its highest level since Febru 1982.

Writing in Policy St s, the institute's quarterly journal, Charles said that a UK inflation rate a e 2 or 3 per cent should be a matter of ncern in the 1990s. One of 6 to 10 per ce should "call for grave concern" and ca control of inflation to be the first ob tive of economic policy.

A rate of 15 to 20 per ce would, he said, be "a disaster req ing crisis measures."

Sir Charles said that full UK membership of the European Monetary System would not spare Britain a depression to cure inflation. However, the European constraint could be "of great value" in preventing inflation from rising again after it had been brought down to reasonable levels.

He also suggested a range of measures to overcome inflation, including:

- Penal taxation of fringe benefits because they could be a concealed form of inflation.
- Making state aid or government contracts conditional on companies having a non-inflationary business plan.
- Pay methods in the public sector to give clearer incentives to improved productivity.

Policy Studies, Autumn 1990. PSI, 100 Park Village East, London NW1 3SR. £9.95.

National Savings growth slips

By Philip Coggan

NATIONAL SAVINGS raised a net £114m for the Government's coffers in August, a downturn on the £207m raised in July.

However, the summer months still represented a considerable improvement on a long period in 1989 and early 1990 when withdrawals exceeded deposits.

The main area of current investor interest is the fifth issue of index-linked certificates which offer a tax-free return if held for five years, although the rates are very much lower if savers cash in early.

The fifth issue raised £197m in August. However, investors have been cashing in earlier issues of fixed-interest certificates.

The total invested in National Savings at the end of August stood at £35.8bn, still well down on the £36.8bn outstanding at the end of May 1989.

Gulf crisis is threat to tax cuts, Thatcher says

By our Economics Staff

THE CRISIS in the Gulf has put a new obstacle in the way of the Government's stated aim of reducing the basic rate of income tax from 25p to 20p in the pound.

Mrs Margaret Thatcher, the Prime Minister, acknowledged in an interview with the newspaper Scotland on Sunday that the 20p target was threatened by the cost of Britain's military contribution to the defence of Saudi Arabia.

In reply to the question whether the 20p target was possible before the next election, or whether it would have to wait, she said: "One cannot quite answer that question until we know the effect of the Gulf crisis and of getting all the forces there and whether sanctions work and how soon it will be over. But, with the increased outgoings that we are having to face now, obviously we should not dream of reducing income tax until it's prudent to do so and it would be damaging if we did reduce it before it was wise to do so."

MRS Margaret Thatcher was warned last night by Mr Paddy Ashdown, the Liberal Democrat leader, not to use the Gulf crisis to hide the failure of her domestic policies.

Speaking at the Liberal Democrats' annual conference in Blackpool, Mr Ashdown said: "The Prime Minister's duty in this crisis is clear. It is to speak for the nation and not for the narrow interests of the Tory Party."

Although Mr John Major, the Chancellor, reaffirmed the 20p tax target in his Budget speech last March, Britain's high inflation and rising public expenditure have since reduced the Government's scope for tax cuts.

Yesterday, however, Mrs Thatcher said that a basic rate of tax of 20p was the Government's "ultimate objective and we have not abandoned it".

Counting costs of a uniform rate

Ian Hamilton Fazey identifies the gainer and losers of a new system

THE MAJORITY of businesses in England and Wales will pay less in rates next year, even though inflation will push rates bills up for many businesses in London, the south-east, the south-west and East Anglia by up to 32 per cent.

That is because of the continuing phasing-in of the national uniform business rate, introduced this year at the same time that commercial properties were revalued.

The uniform business rate – at present 34.8p in the pound – will rise with inflation, but the Government has yet to decide whether to give businesses in previously overvalued offices and factories – mainly in the north and midlands – reductions of 13 per cent or 15 per cent as part of the phasing.

Either way, they will pay less than this year.

The new rating system was introduced along with the first revaluation of commercial property for 15 years. In general, non-factory rateable values rose in the south but fell in the north and midlands because of regional differences in economic performance since 1974.

Phasing was designed as a self-financing system, cushioning the south against rapid increases in rates bills by limiting the fall in the amount paid by the gainers.

Latest government figures show that total rates paid by manufacturers fell everywhere except in inner London. Rates for shops and offices also fell in the north-west, the West Midlands, the Yorkshire area and Humberside, the East Midlands and the northern economic region, which comprises the north-east and Cumbria.

The dividing line between gainers and losers runs roughly from the Bristol Channel in the west to the Wash in the east.

South of it, non-manufacturers paid about £1bn more in rates, while those north of it paid £854m less.

The north-west and West Midlands gained most. As the two biggest regions outside London, with a combined population of nearly 12m, both have large numbers of old factories and both saw severe falls in property values during the 1980-82 recessio he change represents a shif taxation of business from nor to south of £854m in the cur financial year.

Business leaders the north and midlands argu hat they were formerly in ect subsidising business in the south.

The Government fusing to change its formula calculating increases, wh bases inflation on the 10.6 cent retail price index gure announced last week.

Next year, those ing more will hav his year's bill increa by up to 20 per cent for p ng and by 10.6 per cent on t or inflation.

For gainers, this year's rises by 10.6 per cent account for inflation, then f by up to 13 or 15 per ce

Those in premises with a rateable value of less than £10,000 will get bigger reductions.

The figures also show that the national business rates bill of more than £10bn rose by £179m in spite of the Government's insistence that it was not trying to increase the aggregate burden on business.

Mr Michael Postlethwaite, a partner of Matthews Goodman, chartered surveyors, who speaks for the Association of British Chambers of Commerce, says the £179m figure is what would be expected from normal growth of the stock of business premises.

The figures for this year may have to be revised because of appeals against revaluations, which have to be lodged by September 30.

Successful appeals will result in refunds of overpayments, with interest.

One type of "business premises" saved from closure by phasing is the public lavatory. Most of those are owned by local authorities and they have been revalued upwards everywhere.

Mr Postlethwaite said their average rateable value had increased twentyfold, from about £100 each to £2,000, upping average rates payable on each from £34.80 to £696. Phasing had kept the increase down to about £10 this year. On that basis, next year's increase will average about £14.40.

BUSINESS RATES PA
RISE/FALL FROM 1989-90 TO 90-91 (£m)

	shops	offices	factories	hotels	[illegible]	total
North	-19.52	-16.75	-88.33	2.18	[illegible]	-121.84
Yor & Humb	-10.30	-25.69	-106.40	4.08	[illegible]	-126.81
E Mids	-1.51	-12.89	-91.10	3.94	[illegible]	-93.34
E Anglia	27.29	2.27	-12.91	3.43	[illegible]	20.06
Inner Lon	247.74	359.78	4.62	62.96	[illegible]	675.30
Outer Lon	69.00	2.11	-47.80	5.38	[illegible]	28.69
Rest SE	170.79	123.59	-67.20	20.02	0.1	247.39
S West	68.94	13.03	-27.97	8.20	-0.1	62.02
W Mids	-35.44	-25.10	-176.81	5.58	3.5	-227.94
N West	-48.84	-59.14	-182.21	4.71	1.01	-284.47
Total	468.15	381.21	-795.91	120.48	25.15	179.06

Source: Department of the Environment

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UK NEWS

Liberal Democrats set out price of support

By Philip Stephens, Political Editor, in Blackpool

MR PADDY ASHDOWN, the Liberal Democrat leader, singled out the removal of Mrs Margaret Thatcher from office and a commitment to electoral reform as the price of Liberal Democrat support for a minority Government after the next general election.

Speaking at the start of the party's annual conference at Blackpool, Mr Ashdown appeared to acknowledge that the best he could hope for in the election due by mid-1992, was to hold the balance of power in a "hung parliament", when there is no clear majority.

With the party's support in recent opinion polls hovering just below 10 per cent, the conference is seen as its last significant opportunity to re-establish its claim to remain a powerful third force in British politics after the traumas which followed the breakup of the Liberal-SDP Alliance.

In a series of press conferences and media interviews, Mr Ashdown stressed repeatedly that the first objective at the election had to be the end of "Thatcherism".

That left open the possibility that the Liberal Democrats would co-operate with a minority Conservative government led by someone else or with a minority Labour administration.

Mr Ashdown refused to be drawn in advance of the election on the precise terms he would demand for any such co-operation. But he acknowledged that electoral reform – specifically the replacement of the present "first-past-the post" system with proportional representation – was at the top of his list.

"Whatever power we have after the next election will be used to ensure that this country will never again have to vote on the basis of our present corrupt and distorted electoral system," he told a rally last night.

Despite the party's poor showing in the opinion polls, the mood of many delegates was suprisingly upbeat. The demise earlier this year of Dr David Owen's Social Democrats was seen as offering the possibility the party would at least recapture some ground in the centre.

Mr Ashdown indicated that the principal aim of the conference would be to carve out an identity for the Liberal Democrats as a "radical, reformist party", and most of the debates are expected to be free of the rancour which has often damaged the party in previous years.

Some senior party figures, however, were voicing concern that a strong "pacifist" element in the party would seek to use a debate on the Gulf crisis to undermine the Liberal Democrats' support for the Government's strategy. Mr Ashdown repeated yesterday that force might be necessary to dislogde Iraq from Kuwait but stressed that it should be regarded as a last resort.

● Conference took the controversial step of voting for the disestablishment of the Church of England in the opening session of the English party on Saturday, adds Diane Summers.

Mr Paddy Ashdown defending the move yesterday, said the policy formed a "fundamental part of modernising our institutions." It was not possible to be a multicultural society unless the state was willing to be even-handed, he said.

He acknowledged that the proposal could put off some voters but stressed that this would not stop the party from pressing ahead with the plan. Nor would it be deterred by objections voiced by the church, he added.

Paddy Ashdown, whose aims are ousting Mrs Thatcher and electoral reform, displaying his party's new symbol

British Rail rules out freight for channel link

By Richard Tomkins, Transport Correspondent

BRITISH Rail planners working on fresh proposals for a high-speed link between London and the channel tunnel have firmly ruled out the route being used for freight as well as passenger traffic.

The extra cost of doubling the number of tracks from two to four would mean the project would earn less than an 8 per cent return on the investment, the minimum level acceptable to the Government, according to the planners.

The decision will disappoint regional bodies and a wide range of pressure groups which had argued that a freight link with the tunnel would be the first step towards providing a network of routes capable of taking the bigger freight wagons operating on the Continent.

The decision not to take freight on the link may also undermine the case for schemes based on an eastern approach into London through the suburb of Stratford. These were based on the assumption that the high-speed link would carry both types of traffic.

BR has been reviewing the options for the high-speed link since June 14 when Mr Cecil Parkinson, the Transport Secretary, threw out a joint venture scheme between the public and private sectors as financially unworkable.

The 35-mile section of the route from the tunnel mouth to Upper Halling, near Rochester in Kent, has already been broadly fixed. But BR is studying how the line should be taken onwards into the proposed channel tunnel express terminals at London's Waterloo and King's Cross stations.

BR has long favoured a route using existing rail corridors through south London. However at the Department of Transport's direction it is also taking a fresh look at the eastern approach via Stratford for a purely passenger link.

Whichever route is chosen, BR believes, the construction cost will be between £2bn and £3bn for a two-track passenger line, but to add another two tracks for freight would cost £1bn more.

Eastern Electricity may take up stake in nuclear power stations

By David Thomas, Resources Editor

EASTERN ELECTRICITY, the largest of the 12 regional electricity companies to be privatised in November, may take a stake in nuclear power stations planned by British Nuclear Fuels, the state-owned nuclear reprocessing group.

Eastern Electricity's interest in BNFL's proposals could help to re-establish a UK nuclear power station building programme, suspended last year by the Government after the nuclear industry was dropped from electricity privatisation.

BNFL hopes to conclude feasibility studies of possible new nuclear power stations at its existing sites at Sellafield in Cumbria and Chapelcross in southern Scotland by the early autumn.

It said yesterday that it had sounded out almost all the electricity companies in England and Wales about becoming partners in the project. Eastern Electricity appeared to be the most interested in BNFL's plans.

Eastern Electricity would be important to BNFL because the Treasury has said that new stations must not be financed entirely from government-backed borrowings.

In addition, BNFL would almost certainly need a partnership with one or more electricity companies in order to guarantee customers for output from its stations. Both National Power and PowerGen, the two conventional generating companies in England and Wales, said yesterday they were not interested in BNFL's proposals.

BNFL said that although it is studying proposals for two nuclear stations, it might conclude that a small family of three stations would be more cost effective. It believes three stations could be built at its existing sites.

BNFL estimated that one 1,200MW nuclear station would cost about £1.5bn to build.

Most of the proposals for new, mainly gas-fired stations that have been encouraged by the government's privatisation programme are being financed by the banks, usually in a debt-to-equity ratio of 80:20.

BNFL has also been sounding out the world's leading power plant manufacturers about investment. These include Mitsubishi of Japan, Westinghouse of the US, Framatome of France, Asea Brown Boveri, the Swedish-Swiss group, and KWU, a subsidiary of Siemens of West Germany.

Brent Walker seeks compensation from GrandMet over sale

By Terry Byland

BRENT WALKER, the property and leisure group, is to seek compensation of around £160m from Grand Metropolitan, the food, drinks and leisure group, over GrandMet's sale to Brent of the William Hill and Mecca Bookmakers betting shop chains.

Brent paid GrandMet £685m for the betting shop chains last summer.

In a claim expected to be made formally today, it will argue that 1989 profits are "substantially" below levels stated at the time of the deal last summer.

GrandMet said last night it saw "no substance" to the claim, of which it was first informed in March. It regarded Brent's final payment of £50m on the deal, due on September 25, as due and payable, and would be taking "appropriate action" to protect its position.

William Hill and Mecca Bookmakers have around 1,600 betting outlets.

Brent's claim is based on a report commissioned by its board from accountants Touche Ross.

It comes amid City concern ahead of Brent Walker's interim results which are due in a fortnight. Brent Walker shares have plunged from a peak this year of 376p to 149p at Friday's close.

Worries have focused on the suspected difficulties at the betting shops, but have also ranged more widely over Brent Walker's general debt profile.

Italian engineering

In pursuit of the quality ideal

Haig Simonian describes the approach of two privately-owned companies, Marposs and Carraro, which are among the minority in putting emphasis on product development and service

Mario Carraro (right): exporting axles, drive lines and differentials; and Mario Possati (far fight): sophisticated measuring equipment

"It would make me very upset to think my products were less good than anyone else's."

"We think it's very important that, even at middle-management level, our staff should speak the language of our most important clients."

These statements come not, as one might expect, from quality- and marketing-minded German or Japanese executives, but from Italians. The first, Mario Possati, heads Marposs, an engineering company which carries his name and is a leading maker of sophisticated measuring equipment for machine tools.

The second is from Mario Carraro, whose company of the same name recently won one of Ford's coveted Q1 "Quality First" awards to suppliers. Some 80 per cent of its sales of axles, drive lines and differentials for tractors and earth-moving equipment are exported, with almost 50 per cent of turnover going to the UK alone.

The fact that these two relatively small, but technologically advanced, Italian companies have managed to overcome their country's structural economic problems, its intermittent periods of rampant inflation, its inefficient banking system and its often abysmal public services, demonstrates how, with the right management approach, small and medium-sized businesses can survive in Italy even in difficult circumstances.

The two companies' emphasis on quality and service puts them in the minority among smaller Italian businesses; most focus on more traditional Italian industrial attributes such as pricing, speed, flexibility, stylish design, and keen pricing.

The potential of the Marposs and Carraro approach is underlined by the fact that even Fiat, Italy's private-sector industrial giant, is now talking about a new stress on "total quality" in its car production.

Possati's break came in 1952, when he first produced a comparator – a device which constantly measures the internal diameter of a metal part on a grinder – offering new standards of quality and reliability in the exacting conditions of the shop floor. The device allowed output to be tested continuously during production, rather than as part of a random, post-production, quality control process.

Since then, the group, which is based at Bentivoglio in northern central Italy, has widened its range of measuring equipment for manufacturing industry, notably in car and truck production. It has also diversified by applying the sophisticated mechanical and opto-electronic measuring techniques developed for its original products to other uses such as materials handling and more generalised quality control processes.

Almost 90 per cent of Marposs's production is now exported, the bulk of it to the three key markets of Germany, the US and Japan. The company operates research units in Germany and the US as well as in Italy, and now holds around 60 per cent of the market in sophisticated gauges for machine tools in Japan, where it has six offices.

Carraro's edge came in the invention of a special type of axle, eliminating the need for a torque-limiting device and allowing the power from tractor engines to be delivered more efficiently to the wheels.

The company is based in the Veneto region of north-east Italy, with Ford and Case in the UK its biggest single customers. Some recently signed long-term deals, big German manufacturers among them; this means that group sales, which rose by 22 per cent to L217bn (£99m) last year, should near L400bn by 1992.

Marposs and Carraro have plenty in common. They both take great pains to recruit high quality staff (over half Marposs's 975 employees are either university graduates or hold equivalent technical diplomas).

They both set considerable store by training staff at all levels, in various aspects of management including foreign languages – Marposs uses English as its main working language. And they both pay unusual attention to the financial side of the business – "finance in small Italian companies is often seen as a non-essential function," notes Carraro, whose production managers take courses in finance.

Both companies also believe in ploughing back earnings and remain wary of the stock market – a policy that resembles that of Germany's Mittelstand more than the shorter-term approach to profits typical of most small and medium-sized Italian enterprises.

Rather than a need for capital, Possati stresses the quality of a company's management and workforce – what he calls its "human potential" – as the key limiting factor to its speed of growth.

Both companies have repeatedly turned down takeover offers. "Selling control to a big multinational would be a bit like going public," Marposs says.

Over and above all these common factors, the characteristics which most single out Marposs and Carraro from other similar-sized Italian companies, relate to products and customer service.

● Product quality. Aiming for the highest possible quality standards is a priority at both firms. A concern for quality was what drove Possati, now 68, to set up his business in the first place. "In order not to disturb the way things were being done, I decided to set up my own factory to meet my ideals."

The quality criterion is particularly important given Marposs's high precision products, where measurements are taken to a fraction of a micron and accuracy and reliability are paramount requirements of its big clients, notably in the auto industry.

Similarly, Carraro, which supplies a range of demanding multinationals such as Ford, Case, Renault and Massey Ferguson, found that the owner's own drive for quality and reliability was reinforced by pressure from foreign clients.

Although many big manufacturers have sought to develop closer collaboration with those suppliers able to meet their quality, reliability and delivery standards, it is the "partnership" concept pioneered by Ford since 1987 which has been the main influence on the company, says Carraro.

Ford's determination to guarantee standards has obliged key suppliers to undergo regular inspections. In Carraro's case, Ford staff would arrive at the door four to six times a year to examine every aspect of the manufacturing process for quality control, he says.

Carraro is visibly proud of the fact that his company is only one of two Ford suppliers in Italy to have received the Q1 award. "It shows the quality culture in our factories is seen as adequate," he says.

In both Marposs and Carraro, the close identification of quality control with the owner has been a decisive factor in setting and maintaining standards. "I take personal pride in it, and the workforce knows that I am personally responsible for the quality of our products," says Carraro. "On my desk I receive any complaints from the customers. And whenever there is a problem, the quality or production manager knows he can turn to me to sort it out."

● Product development. The emphasis on quality has prompted highly conservative new product policies at both companies. For Mario Marposs's son Stefano, 39, who is the group's managing director, caution towards new products and growth has been an integral part of ensuring its reputation for quality.

Marposs only introduces new products into markets in which it is already well established and where it can provide the technical back-up required. Alternatively, it only sells established products in new markets to begin with rather than running the risk of launching its name with a new item which may not yet be fully developed. "We always seek to avoid involving the two variables together. It would be too risky," Stefano Possati says.

● Service. The same concern for quality is reflected in its determination to take responsibility for its own distribution and after-sales service, despite the heavy additional cost burden.

Thus, the group employs over half as many people in its three main markets as at its home base, with about 150 staff in Japan, where it opened its first office in 1970, and around 200 employees each in the US and Germany, where operations began in the mid-1960s.

Having full responsibility for sales and service is essential for any manufacturer of precision instruments which depends on its reputation for high quality and reliability, according to Stefano Marposs. While US customers may be more tolerant of lapses, the Japanese, Germans and Swiss – three of its major clients – are the world's "least forgiving" customers, he says.

Marposs's determination not to work through local agents was put to its toughest test in Japan, a crucial market for the company given the size of its domestic manufacturing industry, particularly in the automotive sector, which is one of Marposs's biggest customers.

As many much bigger groups have learned to their cost, gaining independent distribution is often easier said than done. Marposs's first branch in Tokyo only opened after a "long struggle not to be represented by one of the big trading companies," says Stefano Possati.

● Research and development. Both Marposs and Carraro share the same evolutionary approach towards their R&D efforts. "Our research has always been into developing products where we're sure we're already world leaders," says Stefano Possati.

Likewise, in-house production has invariably been discontinued in favour of buying from outside specialists when the company felt it was getting out of its depth technologically.

Other Italian businesses clearly have lessons to learn from Marposs and Carraro, particularly in terms of their stress on quality. Mario Possati warns that this can turn into an obsession. "Achieving absolute perfection is utopian, and a company must take care not to let matters get out of hand," he says. "Sometimes we put too much stress on perfection ourselves in the past."

But, he says, "If you do things well, you'll see that the results come through eventually."

Management abstracts

Determining employee deviance. *KB Slora in Journal of Business and Psychology (US), Winter 89 (15 pages)*

Applies this term to employee theft (cash, merchandise or other property) and counter-productive activities such as sloppy work, going slow and drug-taking; reports the results of two large-scale surveys of employees in fast-food shops and supermarkets which revealed deviance on a substantial scale; discusses whether the survey methodology was likely to yield a reliable estimate of deviance, and concludes that it was; notes some implications for selection testing of potential employees.

Accounting for identifiable intangible assets. *J McCahey + CF Keown in The Columbia Journal of World Business (US), Autumn 89 (13 pages)*

Looks at the recent Australian exposure draft on accounting for identifiable intangible assets, outlining the assets which it is proposed should be recognised in financial statements, how they should be measured, why and how they should be amortised, and how they should be revalued.

Managing managers in Europe. *P Bournois + J H Chauchat in European Management Journal (UK), Mar 90 (16 pages)*

Analyses main trends emerging from discussions with top management in 40 major European companies on how they are preparing human resource management strategies for 1992, particularly in regard to defining and recruiting "Euromanagers". Develops, from statistical analyses, a framework of European companies which identifies four styles for managing Euromanagers, and the strategic variables that distinguish these companies – multinationals (which consider Europe as only part of their operational scope); Europe first – which operate on a global scale, but with Europe as the main focus; repositioning for Europe (operating globally, but needing to concentrate on their European activities); and supranational companies, having a strong national basis but vulnerable because of deregulation. Examines major differences between the four groups.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £5 each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.

CONSTRUCTION CONTRACTS

Crossing the Rhine

The widening of the Rodenkirchen suspension bridge over the Rhine, near Cologne, in West Germany, has set a new challenge for **RENDEL PALMER & TRITTON**, part of the High-Point group.

As far as is known no other suspension bridge has been widened by the addition of a third cable, combined with doubling of the deck width. This is to be achieved without interruption to the existing traffic flow. When the project is completed the bridge will have three lanes in each direction plus two cycleways.

The project design has been produced by engineers of the German regional government, Landschaftsverband Rheinland and RPT'S task is to provide the final engineering design and construction engineering.

It forms an integral part of the £67m contract awarded earlier this year to Cleveland Bridge and Engineering, part of Trafalgar House, and its joint venture partners, Strabag Bau AG and Thyssen Engineering of Germany, to widen and reconstruct the 567 metre long bridge.

Construction of the extended foundations alongside the existing bridge is already under way and work on the superstructure will begin next year. The contract calls for completion in June 1994.

Smithfield market scheme

A view of the Smithfield Central meat market in the City of London

ECH PROJECT SERVICES has been formally appointed by the Corporation of London as project co-ordinators for the £45m refurbishment of one of the country's most important markets - the Smithfield Central Market in London.

The refurbishment will be undertaken in response to recent European legislation, whereby all Community meat markets must comply with new regulations concerning hygiene.

The plans will end several years of uncertainty over the market's future during which alternative sites outside central London have been considered. However, no suitable site has been identified and planning permission and listed building consent have therefore been obtained for the proposals to refurbish and redevelop the Grade II listed building which dates back to 1868.

The project, which encompasses some 277,000 sq ft, not only includes alterations to improve the market accommodation at ground level and ancillary accommodation at first floor level, but also the development of 86,000 sq ft of commercial office space on the second floor and a mezzanine car park in the basement.

Design, tendering and approval procedures will be carried out over 20 months and construction work, which will be undertaken in four phases to avoid disrupting the market traders, will take about 50 months to complete and is scheduled to start in spring 1992.

Construction work will include stripping all internal walls, fixtures and fittings, cold stores and shop units. An extensive fitting-out programme will then be undertaken involving the installation of refrigerated shop units in the 110,000 sq ft trading area.

Hotel accommodation in Kings Cross

TARMAC CONSTRUCTION has been awarded a £15.3m contract to build the 404-bedroom Holiday Inn, Kings Cross - Bloomsbury, at the junction of Kings Cross Road and Calthorpe Street - previously the site of the Mount Pleasant Hotel.

Work on the nine-storey building, for Firoka (Kings Cross), started recently and is scheduled for completion early in 1992. It will incorporate a basement and roof-level plant rooms and a partial mezzanine floor between ground and first-floor levels.

£34m American highway project

BALFOUR BEATTY has won its first major civil engineering contract in the US as one of three orders which together total over US$120m (£65.6m).

The Department of Transportation of the State of New Jersey has awarded Balfour Beatty a US$62m (£33.8m) contract for the improvement of Route 147 in Cape May County.

The contract includes the construction of two navigation bridges: a 2,768 ft long, 25 span bridge over Grassy Sound, and a 940 ft long, 13 span low level bridge over Beach Creek. The construction of 2.3 miles of dual two lane carriageway and the creation of 24 acres of wetlands also forms part of the development.

Balfour Beatty Bahamas has been awarded a US$24m (£13.1m) contract from the Bahamas Electricity Corporation for the civil engineering works for a 60MW power plant which is required to meet the increasing demands for energy on New Providence Island.

Balfour Beatty is responsible for constructing the power house, control building, switchgear building, and for installing the electrical and fire protection services.

In Venezuela, Balfour Beatty has been awarded a US$35m (£19m) contract to build a 500 bedroom hotel complex at Puerto La Cruz.

City offices development

MOWLEM BUILDING has been awarded a £12m contract for Land Securities' Veritas House office redevelopment at 119-125 Finsbury Pavement, London, EC2. The original Veritas House, built in the 1960s, has been completely demolished.

The construction of the 58,000 sq ft air conditioned office block involves an eight-storey steel frame structure with steel decking, concrete floor slabs, granite and anodised aluminium facade panels and double glazed windows.

The Finsbury Pavement elevation will have a "drum and prism feature" facade and be faced mainly in dark green granite. The building will incorporate full air conditioning, raised floors and suspended ceilings.

Water industry orders

TILBURY GROUP has won contracts worth £4.94m for specialist civil engineering work for the water industry. Tilbury Construction has been awarded two reservoir contracts, one by Thames Water Utilities, worth £2m, and the other by Tendring Hundred Waterworks Co of Manningtree, Essex, worth £2.94m.

The Thames Water contract involves the construction of a 30 megalitre reinforced concrete reservoir for the storage of treated water.

The East Anglia project comprises the construction of the Horsley Cross reservoir and pumping station. The contracts are due for completion in the autumn of 1991.

LEGAL COLUMN

Holiday resorts provision allows Sunday trading

By Tony Thompson

NEXT MONDAY, the Environment Committee of Westminster City Council is due to meet. On the agenda will be a proposal that part of the West End should be designated as a holiday resort and that, as a result, shops trading in certain goods will be permitted to open for business on Sundays.

It is well known that the Shops Act 1950 requires every shop to be closed on Sunday except for the sale of specified categories of goods or except as otherwise permitted by the act.

The confusing and anomalous classifications of goods that are permitted or prohibited are equally well known.

Some councils enforce the provisions and others do not. Those which do enforce them do so for the most part because they see it as their duty to enforce the law whether or not they agree with it and whether or not the law is supported by modern practices and public opinion.

Some councils apparently take steps to enforce the Sunday trading laws only when they receive a complaint about a particular shop, presumably because they wish to be seen to be enforcing the law but do not have the inclination, or the resources, to enforce the provisions against all traders who open.

The local authority may specify the Sundays . . . on which shops may open

Much time and money has been spent in legal argument, and B&Q, the do-it-yourself chain, which has already been to the European Court, is now going to the House of Lords. Other cases will follow B&Q to Europe and back.

In fighting those cases, local authorities are spending poll tax payers' money on defending a position that has little public support.

Numerous surveys have shown that a substantial majority of the public wishes the restrictions to be removed, and the public votes with its feet every Sunday as it heads for the DIY stores.

The Government recognises that and has pledged to change the law but has not implemented its promise.

The transactions mentioned in the Fifth Schedule to the act are not the only exceptions to the general ban on Sunday trading. Section 51 of the act provides that where all or part of the area administered by a local authority is frequented as a "holiday resort" during certain seasons of the year the authority may make an order permitting shops in the specified area to open on Sundays.

Again, the classes of goods that can be sold are restricted. They comprise principally photographic requisites, toys, souvenirs and fancy goods, books, stationery, photographs and postcards, and articles of food.

The object of those provisions is clearly that the public should be able to indulge in recreation on Sundays and to purchase the types of goods that are traditionally closely associated with leisure and recreational activities.

Section 52 of the act sets out a simple procedure that the council must follow before making an order under section 51. Once the council has decided to make the order, it must give public notice of its intention to do so.

That is a mandatory requirement. Four weeks' notice must be given, during which period objections may be made by any interested party. Notice should be published in a local newspaper and posted in the streets in the usual way, and the draft order must be made available for public inspection during the four-week period.

It should be noted that the council's duty does not go beyond giving notice in such a way. It is not under an obligation to consult with or seek out the views of interested parties, although it must clearly give due consideration to such objections as it receives.

The local authority may specify the Sundays, not exceeding 18 in any year, on which shops may open. It may specify the opening hours, the classes of shops that may open and the types of goods within the stated classifications – set out in the Seventh Schedule to the act – that may be sold. It may also impose such other conditions as it considers necessary.

The area which Westminster City Council is being asked to designate as a holiday resort extends from Temple to Hyde Park Corner and Oxford Street to Victoria Street.

Although that area may not fit in with conventional ideas of a "holiday resort" it is clearly a very important centre for sightseeing and tourism.

There is no judicial authority to assist in defining what is meant by a "holiday resort" in the context of Section 51, but common sense indicates that it must be a place in which holidaymakers stay to spend their vacation and that the level of demand on traders must be significantly altered or increased as a result.

Last year, 9.6m overseas tourists and 9m domestic tourists visited London. In a survey conducted by the British Tourist Authority in 1988 among overseas visitors to London, 80 per cent identified shopping as their most popular leisure activity and 30 per cent identified not being able to shop on Sunday as an obstacle.

The impetus for this unusual proposal comes from Hamleys, the famous toy shop, whose store at 188-196 Regent Street is at the centre of the proposed holiday resort area. Hamleys has been instrumental in gathering support for the proposal and in providing the council with the means and the opportunity to take advantage of it, with a view to persuading the council to allow it to open lawfully.

In preparing the proposal and submitting its evidence to the council in support of it, Hamleys has worked closely with the council's own officers. Leading counsel's opinion on the interpretation of Section 51 has been obtained at Hamleys' expense and submitted to the City Solicitor's department.

That department has confirmed that it sees no legal objection to the council's making an order and that it regards it as a matter influenced by political and environmental, rather than legal, considerations.

The council's trading standards department has co-operated closely in identifying the proposed resort area and in the research undertaken on Hamleys' behalf.

Although this provision of the Shops Act has been little used, there are known to be two precedents in inland cities. The city councils of Oxford and, perhaps more surprisingly, Bradford, have declared parts of their own town centres holiday resorts for the purposes of the Shops Act.

Oxford City Council is known to have invoked the provisions in relation to books, stationery, photographs and postcards for the past 12 years, and in relation to toys, souvenirs and fancy goods for the past five. Sheffield Council is also believed to be giving sympathetic consideration to a similar proposal.

Any local authority considering the issue has a discretion, which must be exercised in good faith taking into account only relevant factors, and a local authority's decision may be subject to judicial review. In principle, however, there would not seem to be any reason why those who choose to spend their holidays in Westminster should be treated any differently from those who visit Oxford or Bradford.

These provisions are not a loophole . . . but were specifically inserted by *Parliament*

It should be clearly understood that these provisions are not a loophole in the legislation which is there to be exploited. They were specifically inserted by Parliament as an exception to the general prohibition on Sunday trading, and are there to be used for the benefit of the community.

Since the act expressly envisages that shops in holiday resort areas may open on Sundays for the purpose of selling the items specified in the Seventh Schedule to the act, it cannot be argued that it is contrary to the spirit and intention of the act for a local authority to make an order under Section 51.

Westminster City Council has the opportunity, by invoking the provisions, to permit retailers within a large part of the City of Westminster to do lawfully what many are at present doing unlawfully, and to relax in part those unpopular restrictions, knowing that in doing so it will both be giving effect to the existing legislative provisions and implementing in advance the declared policy of the Government.

The legal basis for taking this step clearly exists. Hamleys certainly hopes that the council will take advantage of the opportunity to act within the law and in accordance with public opinion without waiting for wider parliamentary reform.

The author is a partner in the City law firm of Macfarlanes.

THE WEEK AHEAD

ECONOMICS

Looking for evidence of recession

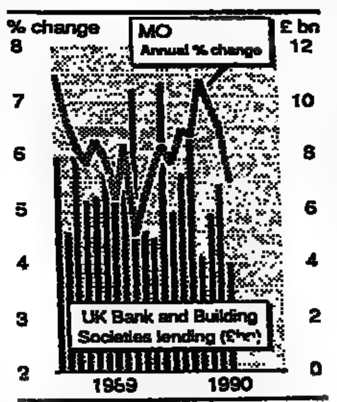
THE ACCUMULATION of evidence that the UK economy is heading out of its slowdown into a recession is likely to continue this week.

The money supply data have been offering conclusive evidence of the UK Chancellor's sought-after abatement in consumer demand. His chosen yardstick, the narrow measure M0, is predicted to slide within its target range of 1-5 per cent on Thursday.

Yet bulls for an interest rate cut are likely to be disappointed until M0 has fallen into the midpoint of its range and inflation is brought down from its current heights.

The current state of the public sector finances will be revealed in the borrowing requirement for August. The Treasury looks likely to undershoot its target of a debt repayment of £7bn in 1990-1991 by about £2bn – as long as there is no further slippage from now on.

But the cost of the military expedition to the Gulf and the pressures on public spending caused by high inflation could result in an even smaller debt repayment on the way back towards a balanced budget by



1993. Towards the end of the week, finance ministers, central bankers and an army of bankers and journalists will start heading for Washington for the annual meetings of the International Monetary Fund and World Bank. The meetings were originally expected to be celebration of the triumph of free market ideals following the collapse of Communism in eastern Europe. But this upbeat theme has been overshadowed by renewed uncertainty concerning the future of the world economy since the Iraqi invasion of Kuwait.

The following statistics will be released during the week, with median market forecasts compiled by MMS International, the financial research company, in brackets. France, provisional consumer price index; West Germany, money supply, producer prices, import prices. Japan, trade balance, second quarter GNP (down 0.9 per cent) Holland, producer price indices.

Today: US, business inventories for July. Australia, retail trade for July

Tomorrow: The Netherlands, 1990 Budget, UK, public sector borrowing requirement (£0.9bn) US, consumer prices for August (0.8 per cent) ex-food and energy for August (0.4 per cent) merchandise trade balance for July (down $7.3bn) Japan, personal income for July. Canada, July trade balance ($1bn). Japan, money supply for August, (year-on-year rise of 12 per cent)

Wednesday: US, housing starts for August (1.13m) Federal Reserve releases the Beige Book, UK, construction, new orders for July.

Commonwealth finance ministers hold annual conference in Port of Spain, Trinidad. International Monetary Fund releases updated World Economic Outlook report.

Thursday: UK, provisional money supply for August (M0 0.9 per cent, M4 1 per cent, M4 lending £5bn), provisional figures for vehicle production. Japan, money supply data. West Germany, Bundesbank council meeting. Michel Camdessus, IMF managing director, holds press conference in Washington ahead of IMF/World Bank annual meetings.

Friday: UK, gross domestic product, second quarter 1990 (0.8 per cent). Canada, July retail sales (down 0.3 per cent). US, Treasury Budget (down $45bn).

Saturday: Finance ministers and central bank governors of Group of Seven countries meet in Washington.

Finance ministers of Group of 24 developing countries meet in Washington. Japan, real GNP for second quarter.

Sunday: Meeting of finance ministers of Group of 10 industrialised countries in Washington, IMF policy making Interim Committee.

Rachel Johnson

UK COMPANIES

GLAXO, the UK's biggest drugs company, is expected to report a 12-13 per cent profit gain when it releases figures for the year to end-June on Thursday. Pre-tax profits of about £1.125bn are foreseen versus £1.01bn.

Inchcape, the international services and marketing group headed by Sir George Turnbull, is expected to produce a moderate 6 per cent profit advance when it reports interim figures on today. Taxable profit should reach £92m (£86.8m). Aside from the reverberations of the celebrated Guinness "affair," the company itself is performing strongly. Interim results due on Thursday should again show a good rise in pre-tax profits, analysts' estimates mostly fall in a range of £300m - £310m against £246m reported last year.

Tuesday sees interims from Taylor Woodrow, the construction group, is expected to produce a fall from the £43.2m last time, with James Capel suggesting a drop to around £36m or £37m.

RMC, the world's largest concrete company, warned with its annual results in April that trading would be tough in 1990.

Most analysts are looking for interim profits, due to be announced on Thursday, to be down on the £115.5m reported a year ago. Barclays de Zoete Wedd is expecting a fall to £106m.

Analysts will be looking for pre-tax profits around the £160m mark from Tesco, the food retailer, when it reports its interim results on Wednesday.

Among other companies reporting next week are Dalgety, Hawker Siddeley, Mowlem, Clyde Petroleum and LWT.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Menvier-Swain, The Hopcrofts Holt Hotel, Steeple Aston, Oxon, 2.30
Rexmore, Regent House, Rexmore Way, Liverpool, 12.00
Smith New Court, Institute of Chartered Accountants, Moorgate Place, E.C., 12.15
BOARD MEETINGS:
Finals:
Bryant
Dalgety
Kleinwort Development Fund
Magnetic Materials
Second Alliance Trust
Tor Inv. Trust
Interims:
Arley Hldgs.
British Polythene Inds.
Christies Intl.
Computer People
Fisher (James)
Fitch RS
Hawker Siddeley
Inchcape
Kingfisher
Meggitt
Memec
Mowlem (John)
Power Corp.
Ransomes
Sherwood Computer Serv
Thompson Clive Invs.
Travis Perkins
Trinity Intl.
Triton Europe
United Friendly Insurance
United Plantations

■ TOMORROW
COMPANY MEETINGS:
American Business Systems, Durrants Hotel, George Street, W., 10.30
Bogod, 52/54 High Holborn, W.C., 12.00
The British Bloodstock Agency, 129 High Street, Newmarket, 12.00
Casket, Royal Scot Hotel, 100 Kings Cross Road, W.C., 11.30
Embassy Property, The Marriott Hotel, Duke Street, Grosvenor Square, W., 10.00
Firth (G.M.), Cedar Court Hotel, Wakefield, 11.45
Moray Firth Exploration, 14-20 St.Mary Axe, E.C., 11.00
Park Food, Executive Suite of Tranmere Rovers Football Club, Prenton Park, Birkenhead, 12.00
South West Water, English Riviera Centre, Torquay, Devon, 11.30
BOARD MEETINGS:
Finals:
Benchmark
CALA
Everest
FII
Green (Ernest)
Interlink Express
Mayborn
Mucklow (A. & J.)
SWP
Stonehill
Interims:
ADT
Beauford
Bluebird Toys
Bowthorpe
CI
Cannon Street Invs.
Clarkson (Horace)
Clyde Petroleum
Cresta Hldgs.
Ferrum Hldgs.
Garton Engineering
Guildhouse
Iceland Frozen Foods
Jeyes
LWT
Lopex
MMI
RPS
Refuge
Renown Inc.
Silentnight
Sovereign Oil & Gas
Taylor Woodrow
Telemetrix
Tesco
Trade Indemnity
Wassall

■ WEDNESDAY SEPTEMBER 19
COMPANY MEETINGS:
Courts, The Barber-Surgeons' Hall, Monkwell Square, Wood Street, E.C., 10.50
Fitch Lovell, Plaisterers' Hall, 1 London Wall, E.C., 3.00
BOARD MEETINGS:
Finals:
Barratt Developments
Merivale Moore
Minorco
Zambia Copper Invs.
Interims:
Associated Fisheries
Bentalls
Brixton Estate
CMB Packaging SA
Cakebread Robey
Connell
Davis (Godfrey
Micro Focus
Rockware
SD-Scicon
Steel Burrill Jones

■ THURSDAY SEPTEMBER 20
COMPANY MEETINGS:
Banks (Sidney C.), The Blakemore Thistle Hotel, Little Wymondley, 12.00
Danae Inv. Trust, 99 Charterhouse Street, E.C., 2.30
Douglas (Robert M.), Shenstone House, 395 George Road, Erdington, Birmingham, 12.00
Electron House, The Howard Hotel, Temple Place, W., 12.00
Farepak, 87 Bartholomew Close, E.C., 12.00
Heath (Samuel), Leopold Street, Birmingham, 12.00
MITIE, Meeting House Farm, Long Lane, Wrington, Avon, 12.00
Neepsend, Kenwood Hall, Kenwood Road, Sheffield, 11.00
Tomkins, The Hyatt Carlton Tower Hotel, W., 11.30
Victoria Carpet, Green Street, Kidderminster, 3.00
BOARD MEETINGS:
Finals:
Alumasc
Dowding & Mills
Glaxo
Logica
Sheldon Jones
Westpool Inv. Trust
Interims:
APV
Baynes (Charles)
Bemrose
Bilston & Battersea
Boustead
Britannia Group
Dairy Farm Intl.
England (J.)
Fired Earth Tiles
Goal Petroleum
Guinness
Highcroft Inv. Trust
Hornby
Johnston Press
Jove Inv. Trust
Laporte
MB
MTL Instruments
Malaya
Morrison (Wm.) Supermarkets
RMC
Secure Trust
Sindall (William)
Spring Ram Corp.
Taveners

■ FRIDAY SEPTEMBER 21
COMPANY MEETINGS:
Aerospace Engineering, Chartered Accountants Hall, Moorgate Place, Moorgate, E.C., 12.15
Baker Harris Saunders, Saddlers' Hall, 40 Gutter Lane, E.C., 12.00
Booth Industries, The Pembroke Halls, Worsley, Manchester, 11.30
Markheath Securities, The Westbury, Conduit Street, W., 11.00
Unitech, The Howard Hotel, Temple Place, Strand, W., 12.00
BOARD MEETINGS:
Finals:
Bellwinch
China & Eastern Inv.
Waterman Partnership
Interims:
Breedon
Cluff Resources
Dinkie Heel
Liberty
Proudfoot (Alexander)

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Anglo & O'Seas Tst. 1.75p
Chester Waterworks 4.2% Stk. 2.1p
Do. 3.15% Prf. Stk. 1.575p
FPL 58cts.
Holders Technology 2p
Quillgotti 1.44p
Reuters 4.4p
Savills 2.625p
Surrey Group 0.075p
Thomson Corp. 11.3cts.

■ TOMORROW
Bank Leumi (U.K.) 4.5p
Christie Group 1.4p
Fleming Fledgeling Inv. Tst. 1p
Limited Inc. 6cts.

■ WEDNESDAY SEPTEMBER 19
American Business Systems 1.8p
Birmingham Midshires Bldg. Society Fltg. Rate Nts. 2005 £81,728.77
Bogod 0.22p
Do. Ord. "A" 0.44p
Christiania Bank OG Kreditkasse Fltg. Rate Nts. 1991 $422.37
Do. Reverse Fltg. Rate Nts. 1997 $824.81
GT Berry Japan (Sterling) Fd. 7.2p
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1996 £379.86
Oil & Natural Gas Commission Gtd. Fltg. Rate Nts. 1996 $456.81
Svenska Exportkredit AB Fltg. Rate Nts. 1992 $511.11
Treasury 11½% Stk. 2001/04 5.75pc.

■ THURSDAY SEPTEMBER 20
Alcan Aluminium 28 cts.
Arab Banking Corp. Fltg. Rate Nts. 1996 $453.61
Exchequer 10½% Stk. 2005 5.25pc.
Marine Midland Banks Fltg. Rate Sub. Nts. 2009 $217.22
News Intl. Gtd. Fltg. Rate Nts. 1991 $218.82
Pfizer 60 cts.
Standard Chartered Und. Prim. Fltg. Rate Nts. £191.40

■ FRIDAY SEPTEMBER 21
Abbey Panels Invs. 1.5p
American Intl. 11 cts.
Citicorp Fltg. Rate Sub. Cap. Nts. 19/9/96 $214.03
Commonwealth Bk. of Australia 13¾% Bds. 1999 7.875pc.
EMC 0.8p
Independent Inv. Co. 0.25p
Leeds Permanent Bldg. Society Sen. Var. Rate Nts. 1994 $379.66
Do. Sub. Var Rate Nts. £384.07
Lydenburg Platinum 11cts.
Smith New Court 3p
Triplex Lloyd 4.5p
Westport 0.6p

■ SATURDAY SEPTEMBER 22
CSC Inv. Tst. 4.2p
Exchequer 13½% Stk. 1992 6.75pc.

■ SUNDAY SEPTEMBER 23
Essex Water 3.5% Ord. Stk. 1.75p
Do. 3.5% New Ord. Stk. 1.75p
European Inv. Bank 11% Ln. Stk. 2002 5.5pc.
Treasury 2% Index-Linked Stk. 1992 £1.2219

APPOINTMENTS

Senior position at Credit Lyonnais

■ CREDIT LYONNAIS SECURITIES in London has appointed Mr Olivier Favre-Gilly as a director. He will head the structured finance team, a new unit within the company's international corporate finance division. Until recently he was a director of Merrill Lynch Capital Markets responsible for business origination in France, Benelux and Switzerland.

■ Mr Barry Dravers and Mr Anthony Williams have been appointed directors of BARCLAYS de ZOETE WEDD in the corporate finance division.

■ Ms Mary Shearer has been appointed secretary of the RETAIL CONSORTIUM and the BRITISH RETAILERS ASSOCIATION. She was previously secretary to the UK Offshore Operators Association.

■ Mr Adam Faith and Mr Drew Smith have been appointed to the board of ALFRESCO LEISURE PUBLICATIONS.

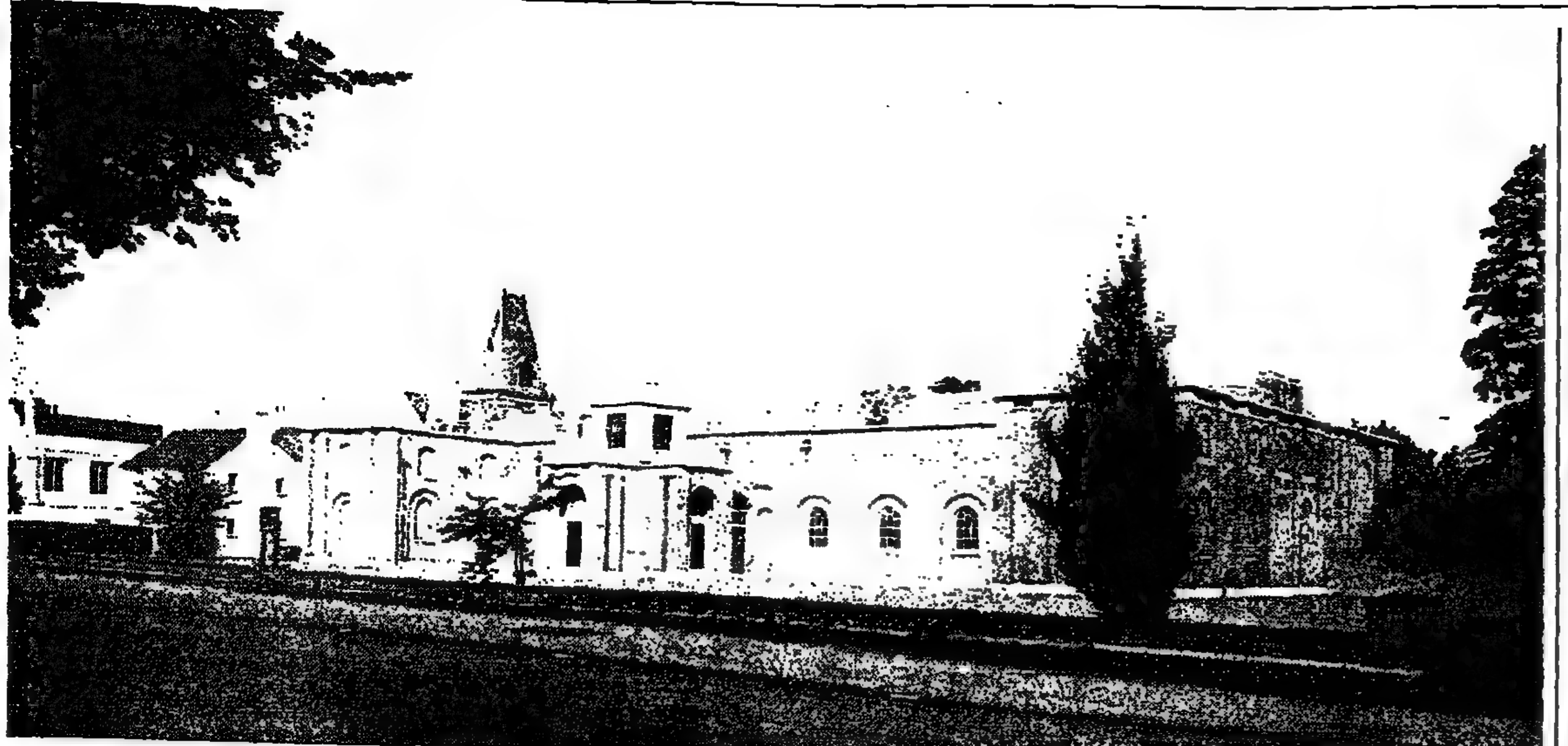
■ Sir John Riddell has rejoined the board of NORTHERN ROCK BUILDING SOCIETY, Newcastle upon Tyne.

Sir John, who was a director from 1981-85, withdrew from all his commercial interests on becoming private secretary to the Prince and Princess of Wales in 1985.

Sir John is deputy chairman of Credit Suisse First Boston.

Continued on next page

ARTS



Some 900 architects were attracted by the competition to design a new building next to Soane's Dulwich masterpiece, pictured above

ARCHITECTURE

No match for Soane's genius

Colin Amery describes a disappointing competition for a new pavilion

It seemed like a good idea at the time. All the auguries were favourable and there was a huge response from the architectural profession in Britain. *Country Life* magazine and the Dulwich Picture Gallery recently sponsored an important architectural ideas competition for a new pavilion to be built at Dulwich as a neighbour to the gallery, which was designed by Sir John Soane in 1811. Last week at a dinner in the gallery, the results of the competition were announced. Sadly, the winners selected by the judges has been received with almost universal disappointment and the fine idea of the competition has been diluted by the distressingly uninteresting winning designs.

There is no doubt that it was the considerable appeal of building alongside Soane's masterpiece that challenged the imagination of so many architects. Some 900 applied to register for the competition and in the end there was a record number of 377 entries. This must have set the judges a hard task. The fruit of the judges' labours, and indeed the fruit of the toil of the architects, is currently on view at the Dulwich Gallery until October 14. If you could face it, the best time to visit would probably be during September 25-30 when all the 377 entries will be exhibited in a marquee. What an opportunity to survey the range of British architectural talent.

The Dulwich Picture Gallery contains the 371 pictures assembled by the French picture dealer Noel Desenfans as the nucleus of a projected National Gallery of Poland. His purchases, made in the 18th century, formed a remarkable collection which reached Dulwich College through the bequest of Desenfans's friend, the painter Sir Francis Bourgeois. Bourgeois left an endowment for the upkeep of the pictures and Sir John Soane was commissioned to design both a gallery and a mausoleum for the founders.

Dulwich Picture Gallery was one of the first art galleries to be opened to the public in Europe and the very first to be opened in England. It has been described by the leading expert on the work of Soane, Sir John Summerson, as embodying "Soane's eccentric haunting genius as no other surviving work of his (except his own museum)." Any visitor will see at once that Soane's great skill as an architect enabled him to avoid any sense of inertia in his use of the language of neo-classicism. It is tense and noble building – simple in its materials and clear in its ingenious use of light.

The winning scheme for the new pavilion is by an unknown young group of architects, Christopher Grasby with Brendan O'Neill and Tom Zetek. The brief for the competition was kept deliberately vague and only asked for the minimal requirements of a tea room, shop and lecture hall. The winning design is almost invisible. It is praised by the assessors as being a wonder of discretion. Two long garden walls almost conceal the steel and glass single storey, flat roofed pavilion which is not linked to the existing museum. Invisibilism is the new style. How curious to praise and select something that has no architectural character. The assessors themselves do not seem very confident about the planning of this winning design which they describe as "perhaps over-simple."

The second prize scheme was won by Allies and Morrison who located their pavilion on the street some distance from the gallery. Their design was a perfectly standard and uninspiring boxy scheme. The third prize winner was Peter Clash who produced a glassy tent with strong overtones of a revival of the Festival of Britain. There were other solutions that put the extension underground, or surrounded it with yew hedges, or turned it into a monumental wing of the existing gallery. One perfectly sensible scheme suggested a pair of lodges that seems a neat way of dealing with overspill space in a formal context.

These disappointing results show that perhaps the Director of the Gallery, Mr Giles Waterfield, went about things in the wrong way. He followed the convention of asking the RIBA to monitor the competition and opened the competition to anyone registered as an architect in Britain. The hope was, I am sure, to find the unknown genius. This has occasionally happened in history. Giles Gilbert Scott was unknown and youthful when he won the competition to design the Anglican cathedral in Liverpool – but he had a clear brief and was not simply asked for rather woolly ideas.

Asking the RIBA to run things always puts architects in charge. In this case the three architects, Brian Carter, Gordon Boyer and Leonard Manasseh, are known for their conventional, rather old-fashioned and out of touch modernist views. Mr Manasseh, in his speech at the dinner managed to see in Sir John Soane the seeds of Brutalism – that ghastly and damaging style of the 1960's that has rightly been rejected. When designers come up against that sort of ludicrous orthodoxy there is little hope of finding a a new or inventive winner.

There were some classical entries but these were ruled out by the judges as "pastiches." I have not yet seen all the entries but I sense a whiff of mere prejudice here. I am not anxious for a weak-kneed classical revival but I looked in vain among the winning designs for any understanding of the essence of Soane. None of the winners seem to be able to comprehend the sublime nature of this rare building at Dulwich. Mr Waterfield would have received some much more inspiring architectural ideas if he had invited 50 leading architects from an international field. Indeed, he once organised a promising exhibition at the Gallery called *Soane and After*, when many leading architects considered Soane's gallery. If only he had nurtured some of the seeds he planted then.

At least we can rest assured that there is so little support for the sadly feeble winners that there is no chance of anything being built alongside Soane for a long time to come. The competition results are a sadly missed opportunity to elevate the architectural debate.

Bartók and Beethoven

WIGMORE HALL

On Saturday András Schiff's Bartók-Beethoven Festival completed its course with a performance of the Bartok Sonata for Two Pianos and Percussion of such elating, hair-raising excitement as to close the whole enterprise on a note of triumph. It seems to be widely agreed that this triumph of the week-long schedule has indeed been Bartók's – and on the evidence of this final instalment alone, I see no reason to disagree with that judgment.

Equally, the link proposed between Bartók and Beethoven seems not to have been clearly argued in the content of each of Schiff's concert programmes; that was certainly the flaw in Saturday's bill of fare. A thoroughgoing examination of the debt (very real, and often admitted) owed by the later composer to the earlier would have placed the Bartók Sixth Quartet alongside one of the late Beethoven quartets – Op. 132, say, whose "Heilige Dankgesang" can be said to provide the model of slow, meditative string-quartet music so much absorbed into and at the same time questioned by the Sixth.

Instead, we had as concert-opener a less than compelling account of the Beethoven C major Cello Sonata, Op. 102, no 1. It was not evenly matched in its performers (Schiff the delicately fresh and spontaneous pianist, Boris Pergamenchikov the well-meaning but entirely earthbound cellist), and as a result it offered no intelligible, let alone festive, insight into the Bartók-Beethoven theme, acting instead in the nature of the throwaway overture.

This was a miscalculation (when Schiff comes to plan his next London chamber-music series – which he should do with all possible speed – it should be kept in the forefront of his mind). But because of the superb Bartók that followed this Beethoven, it was easily forgiven,even forgotten. The Sixth found the Takacs Quartet, resident group of the festival, at the peak of their powers. Simply as sound this account of the work was heart-breakingly beautiful: the opening viola solo, played with rare richness of tone and "speaking" eloquence of inflection, announced a performance style sustained by all four voices without lapse of concentration to the very end. The Takacs' passionate sense of Bartókian melancholy is counterpointed by their equally rigorous command of his ironic and sweet-sour folk-lyrical modes; indeed, a more complete understanding of the work one could hardly hope to find.

The sadness of the experience was, as it should be, all-pervasive, and so it was an excellent stroke of planning that after the interval it should be dispelled by the excitements of the Sonata. In a hall of Wigmore size, the fine details out of which its extraordinary exhilarations are made strike the listener directly, with main force – nothing goes amiss, everything tells and gathers dramatic energy.

The pianists were Schiff (glittering, impetuous, imaginatively bold) and Bruno Canino (an admirably cool, resourceful partner), the percussionists two of the leading members of the Hungarian Amadinda percussion ensemble. There was nothing in the playing to suggest that all four had not been working together on the work for many seasons. In terms of balance, focus, rhythmic co-ordination the meeting of minds and techniques proved matchless.

Max Loppert

War Requiem

ALBERT HALL/RADIO 3

Whatever your political persuasion, it is unlikely you could pick an argument with Friday's Prom. In a break with tradition Beethoven's Ninth Symphony was moved this year from its usual spot on the penultimate night and its place was taken by Britten's *War Requiem*, a vision of commensurate grandeur and the most important work on a pacificist theme to come from any composer of the post-war era.

The message of the *War Requiem* is stark and clear. By mixing the Latin text of the Requiem Mass with a selection of poems by Wilfred Owen, written from the trenches of the First World War, Britten made the causes of death, rather than death itself, the subject of his Requiem setting. Nowhere is this more powerfully stated than in the tenor solos and it was entirely fitting that the outstanding contribution to this evening should come from the tenor soloist, Anthony Rolfe Johnson.

Even in the Albert Hall Rolfe Johnson is able to project every word clearly. The voice was full of music, despite a hard thread to the tone at times, and the singer made his English texts as moving as they can ever have been. There are just one or two occasions a year when one comes away feeling that a performer has penetrated to the heart of a piece and communicated all that it has to say. This was unquestionably one of them.

His achievement was the more remarkable, because all three soloists had been placed at the back of the stage behind the orchestra. From that position the baritone Olaf Bar was unable to put across either voice or words with full impact; and while Yvonne Kenny was audibly striving for the proper authority in the soprano part, the music really requires (and was written for) a voice on an altogether more imposing scale.

None the less, the performance as a whole mostly rose to the occasion. It has been heartening over the years to see the *War Requiem* taken up by leading conductors from overseas - for instance Haitink, who has given some memorable performances at the Festival Hall, and now Kurt Masur. The East German conductor led the Royal Philharmonic Orchestra in a well-paced performance, more overtly expressive than Britten himself would have allowed, but with its dedication never in doubt.

With the boys' choir high up in the gallery, the spacial possibilities of the Albert Hall were used to fine effect. The unanimity of the Choristers of Westminster Cathedral also made them the most noteworthy choral group of the evening, firmer of tone and attack than the combined forces of the Bach Choir and Brighton Festival Chorus in the main choral movements, well though they blended in the final ensemble of resolution.

Even in Britten's output there is no other work as compassionate and as determined to reach across national boundaries as the *War Requiem*. As the Prom programme is planned a year or more in advance, the BBC cannot possibly have known what a timely antidote it was providing to the Last Night revels in the present political circumstances.

Richard Fairman

The Dark Lady Reads the Sonnets

STUDIO, LYRIC HAMMERSMITH

Faith Kent rather subscribes to the Thorpe theory of Shakespeare's Sonnets. Thomas Thorpe was one of the original publishers. It is suggested that he printed them in the order he did because each one was written on a single sheet of paper. One day there was a fight and they all fell off the table. They were picked up at random, as 150 bits of paper might be, and that was the order in which they appeared. Many scholars have spent much time since trying to regroup them as well as work out theories of the characters involved.

No matter. As Ms Kent says in her solo performance at the Lyric Studio in Hammersmith, the Sonnets stand in their own right. It is of no great importance which of the scholars were right or wrong.

As a piece of theatre, *The Dark Lady Reads the Sonnets* has two things going for it. One is the merits of the poems themselves. You would have to be a pretty bad actor to spoil them. The other is the the speculation about who does what to whom. Ms Kent intertwines the two, mixing the narrative and gossip with straight readings.

Actually, she inclines to the theories of A.L. Rowse, the historian who with his customary certainty insists that the "Mr W H." to whom the Sonnets are dedicated and who is described as "the onlie begetter," is Shakespeare's patron the Earl of Southampton whose name was Henry Wriothesley. Others hold this theory, too, though I like the suggestion of a German critic called Barnstorff in the 19th century that "W H" stands for "Will Himself," on the grounds that Shakespeare literally was the "onlie begetter."

Still, there is no need to dwell on it. Ms Kent never labours a point. She takes us through some 50 of the sonnets in less than two hours moving variously from the love poems, to the bitterness and self-mockery. Wit is never far away. She thinks, for the record, that Shakespeare was heterosexual and might have mentioned that even Coleridge was shocked at the very idea that the Bard might have been in love with a man.

There are many schools in the Hammersmith area. They should encourage their A Level students of English Literature to go and see Ms Kent, for she leads a very pleasant excursion around the man, the times and the work.

Malcolm Rutherford

Britain takes top Venice Film Festival prize

Britain won top prize at the 47th Venice Film Festival. The Golden Lion for Best Film went to Tom Stoppard's *Rosencrantz And Guildenstern Are Dead*.

The jury, headed by Gore Vidal, awarded the Silver Lion to Martin Scorsese's Mafia drama *Good Fellas* and the Special Jury Prize to New Zealand's *An Angel At My Table*, directed by Jane Campion.

Of the other competing countries, Russia excelled with a Best Actor prize for Oleg Borisov's performance in *Unique Testimony* and a Gold Medal for the Chernobyl drama *Raspad*, which "more than any other film underlined civil progress and human solidarity."

SALEROOM

A war medals record

A mysterious buyer, bidding over the telephone, made Sotheby's day on Saturday when he paid a record price for a Victoria Cross group of medals of £126,500. His had been awarded in 1915 to William Rhodes-Moorehouse for his bravery in bombing railway lines near Courtrai and returning his plane safely to base in spite of mortal wounds. He was the first airman to win the VC, which accounts for the price. The medals were sold by his nieces and the money will go to charity. It is hoped that the VC will stay in the UK.

The same bidder secured the two other most important groups of war medals in an auction held at the RAF Museum in Hendon to celebrate the 50th anniversary of the Battle of Britain. He paid £50,600 (over double the estimate) for the DSO and other medals won by a flying hero of the Second World War – Group Captain "Pick" Pickard. Among his exploits was the raid on Amiens prison in 1944 which enabled hundreds of captured French Resistance fighters to escape. "Pick" did not return from the mission.

The other group of medals had been won by another Second World War ace, Ginger Lacey, who is reckoned to be the most successful pilot of the Battle of Britain. He is credited, all told, with bringing down 28 enemy aircraft. He died last year and his medals brought £30,800.

But if the medals, mementoes and accessories of war did reasonably well, Sotheby's came unstuck when trying to sell fighter aircraft of the Second World War. A Hurricane, the first to appear at auction and one of only half a dozen still airworthy, was unsold at £790,000 (Sotheby's had hoped for over £1m). While the more common Spitfire attracted a highest, unsuccessful, bid of £640,000. They came from the collection of the building entrepreneur Charles Church who was killed last year flying another Spitfire.

The new saleroom season slips up a gear this week but the auctions still tend to feature curiosities rather than solid antiques. For example, on Friday, Christie's South Kensington is selling over 250 celluloids which represent the animated artwork from the Pink Floyd 1982 film *The Wall*. It was a collaboration between the musician Roger Walters and the artist Gerald Scarfe, who are now disposing of their film. Estimates for most stills are in the £200 to £1,000 range.

The same auction house expects a high, £10,000, price for a fan tomorrow when it offers a rare leaf from a fan painted with the 20th birthday celebrations of Le Grand Dauphin in 1681.

Phillips is disposing of almost a thousand orders, decorations and medals today and tomorrow, including the VC that Private Arthur Procter won in 1916 – for saving lives, of two fellow soldiers lying wounded in No Man's Land. He later became an RAF chaplain. The estimate is up to £15,000, and includes his other medals.

Antony Thorncroft

Michael Garrick's jazz Passion at Berkhamsted

Michael Garrick's jazz choral interpretation of the Passion of Christ, *Judas Kiss*, will be performed in an expanded version with Scott Stroman's string orchestra in Berkhamsted School Chapel on October 13 and 14 at 7:45pm.

Originally commissioned by the Nottingham Festival and performed there in 1971, the work features the singer Norma Winstone and instrumentalists Tim Garland and Jimmy Hastings (reeds), Steve Waterman (trumpet), Paul Moylan (bass), Alan Jackson (drums), Tina Lyle (percussion) and Michael Garrick (pipe organ).

Following its London premiere at St John's Smith Square in 1971 the FT's critic described it as an "impressively conceived work . . . easily followed and musically uncomplicated . . . full of exciting musical textures."

The telephone number for enquiries is 0442 864989.

ARTS GUIDE

September 14-20

MUSIC

London

Brave New Worlds: contemporary music festival. City of Birmingham Symphony Orchestra, conducted by Simon Rattle, plays works by Bartok and Stravinsky (Mon). Royal Festival Hall.
The Jazz Warriors: a tribute to Chris McGregor, the South African composer, with guest South African Choir, Amabutho (Tue). Queen Elizabeth Hall.
London Symphony Orchestra, conducted by Michael Tilson Thomas, performs Beethoven's 8th Symphony. (Thur) Barbican Hall.

Paris

Orchestre Philharmonique de Radio France conducted by Marek Janowski. Ives, Bartok, Hindemith (Wed). Radio France, Grand Auditorium (42302308).
Philharmonia Orchestra conducted by John Eliot Gardner. Berlioz' *Romeo et Juliette* (Wed). Chatelet (40282840)

Picardy

The 3rd Cathedrals' Festival brings oratorios, masses and cantatas to the cathedrals of Laon, Senlis, Abbeville, Soissons and Compiegne. Free telephone information (05255230) and locally.

Amsterdam

Netherlands Philharmonic with vocal soloists and the choir of the Netherlands Opera perform Brahms and Bruckner. Hartmut Haenchen conducts (Mon, Thur). Concertgebouw (718 345)

Brussels

RTBF Symphony Orchestra conducted by Andre Vandernoot with Ulf Hoelscher (violin) play Mahler and Mozart (Fri). Maison de la Radio.

Royal Flanders Philharmonic Orchestra conducted by Carlos Paita with the Emerson Quartet play Bruckner and Mozart (Wed). Palais des Beaux-Arts.

Belgian National Orchestra conducted by Ronald Zollman with Lazar Berman (piano) play Franck, Schmitt and Tchaikovsky (Thur). Palais des Beaux-Arts.

Antwerp

Luciano Pavarotti (tenor) in concert with Andrea Griminelli (flute), musical director Leone Magiera (Wed). Sportpaleis (part of the Flanders Festival).

Berlin

Dietrich Fischer-Dieskau Lieder recital with pianist Vladimir Ashkenazy. Schumann's *Dichterliebe* (Thur). Opera House.

Frankfurt

London Sinfonietta conducted by Arturo Tamayo. Birtwistle, Berio, Xenakis and Henze (Thur)

Milan

Myung-Whun Chung conducting, with violinist Kyung Wha Chung. Weber, Bruch and Berlioz (Wed). Teatro Alla Scala (80.91.26).

Stresa (Lake Maggiore)

Settimane Musicali di Stresa. Last week of festival offers concerts every day, including Shlomo Mintz and pianist Paul Ostrvsky with the New York Amati Trio on Mon. Closing concert (Tue) conducted by Carlo Maria Giulini: the Scala Philharmonic playing Schumann, Ravel and Stravinsky (31.095).

New York

New York Philharmonic conducted by Zubin Mehta with Florence Quivar (mezzo-soprano) and the Westminster Symphonic Choir directed by Joseph Flummerfelt. Mahler (Tue); Zubin Mehta conducting with Evgeny Kissin (piano). Schubert, Stravinsky, Chopin (Thur). Avery Fisher Hall, Lincoln Center (874 6770).

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich. Key, Schuman, Copland, Mussorgsky/Kindler, Mussorgsky/Ravel (Tue); Mstislav Rostropovich with Beaux Arts Trio. Sibelius, Artyomov (world premiere). Concert Hall, Kennedy Center (467 4600).

Tokyo

NHK Symphony Orchestra conducted by Yuzo Toyama. Takemitsu, Mahler, Handel. Bunkamura, Orchard Hall (Tue) (477 3244).
Yuri Bashmet (viola) with the NHK Chamber Ensemble. Bach, Hoffmeister, Mozart. Suntory Hall (Wed) (235 1661).
Festival of Japanese Instruments. 13 works for various instrumental combinations. Vario Hall (Wed) (818 4153).

continued on next page

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Steps to a new world order

IN HIS speech to Congress last week, President Bush added a fifth objective to the four he has already assigned to his forces in the Gulf. It is the most ambitious of all: the creation of "a new world order."

Not since the founding of the United Nations Organisation in 1945 can a US president have struck quite such an idealistic note in describing his policy goals. Politically it was important to do so. Mr Bush knows that his policy involves risking a war in which thousands if not hundreds of thousands would die, including hundreds if not thousands of American servicemen. Such a risk cannot be justified by arguments over the price of oil, or the balance of power in a strategically important region – especially now that the free world no longer faces a threat from a superpower with an expansionist ideology. It can only conceivably be worthwhile if it does have the effect of securing small states everywhere against the designs of their neighbours, and convincing would-be aggressors that war is not a means to an end.

By coincidence, Mr Bush's speech was followed within hours by the signing of the treaty restoring full German sovereignty. That he made no reference to this shows how far the Gulf crisis has pushed all other foreign policy issues out of the American public mind. Nor did he mention the acceptance by the warring factions in Cambodia of the Security Council peace plan, which occurred the previous day.

Pre-cold war

Yet both these events can be seen as signs of the new world order he was talking about. Both were made possible only by the end of the cold war; and both imply that the new world will include components from an earlier, pre-cold war world.

The idea that the "great powers" should co-operate to ensure international peace and security is an old one, codified more explicitly in the UN Charter than in earlier times, but shelved for most purposes since then because the two greatest powers distrusted each other so deeply. Likewise a feature of the new order in Europe is the re-appearance of Germany as a united and sovereign state, which will inevitably henceforth play a leading role on the continent.

It has long been apparent that the defeated powers of 1945, Germany and Japan, have re-emerged as economic powers, and as necessary partners for the US in the management of the world economy. Increasingly in the new world they will be called on to play a political role as well, although Germany may choose to play it through a European political union, if other European states agree to a sufficient pooling of sovereignty, rather than as an independent power. Either way, these two states will have sooner or later to be brought into the college of "great powers" – the permanent members of the UN Security Council – if that body is indeed to fulfil its designated leading role.

Unwelcome reminder

That does not mean that they have to become great powers in the military sense. The present crisis shows that they are still very far from being either able or willing to bear an equal share of the burden of world leadership in this sense. The immediate effect of this crisis is an unwelcome if necessary reminder that military strength does matter, and that in that department the US is indeed "bound to lead." (The Soviet Union, for better or worse, is clearly in no condition to do so, but it may still have an important diplomatic role to play.) But it is also clear that the US is unable to to so without seeking financial support from other powers; and if Mr Bush succeeds in his objectives, military power should be less important in the future.

Nations of east and west now have a good chance to "prosper and live in harmony" (in Mr Bush's words), if arguments about "burden-sharing" can be conducted in a civilised and imaginative way. The chance that nations of north and south can do so seems more remote. Even in Iraq, northern "guests" get privileged treatment compared with the despised hordes of Asian migrant workers. A rise in the oil price, like all flat-rate taxes, bears very unequally on rich and poor. There, too, is a burden which should be shared.

Shipping's call for a lifeboat

"WE ARE a seafaring race and we understand the call of the sea," Winston Churchill was once moved to observe.

Understand, perhaps, but not obey. Over the past decade the British shipping industry has been shrinking fast. Between 1980 and 1989, the UK mainland registered fleet fell from 1,275 vessels to 361 and the number of seafarers from 61,000 to 21,000. Once a great maritime nation, the UK now takes barely 2 per cent of world cargo freight revenues.

Should anybody care? The British shipping industry thinks so. Yesterday it launched British Shipping Month – superficially, a campaign to introduce the joys of shipping to a wider audience, but in reality a lobbying exercise aimed at highlighting the industry's woes in the run-up to the Tory Party conference.

With a gross contribution to the balance of payments of £4.1bn last year, the industry says, shipping is Britain's third-largest source of invisible earnings after tourism and financial services: but because poor shipping rates have left owners with little incentive to buy new vessels the fleet is becoming older and smaller. If renewal does not take place, the industry will be in danger of disappearing altogether.

According to the General Council of British Shipping, there is more at stake than the balance of payments. An island nation without its own merchant fleet, it says, is at the mercy of foreign shippers' services. When crisis looms, as over the Falklands, the fleet becomes an essential adjunct to the defence effort. And further shrinkage would jeopardise London's pre-eminent role in maritime insurance, shipbroking and other related businesses, which together contribute an estimated £1bn a year to the balance of payments.

Plea for state aid

What the industry wants is government support. Nearly all other maritime nations, it says, give substantial tax breaks to their shipping industries. If Britain's industry is to compete, it needs fiscal incentives to invest in new vessels, such as a restoration of the 100 per cent capital allowances it lost in the 1984 Budget.

Against the background of a Government committed to the principles of a free market economy and the neutralisation of the tax regime, this special pleading seems unlikely to find a favourable reception. Nor does it deserve one.

Uneven playing field

Emotive arguments about Britain's maritime tradition gloss over the fact that other nations – notably, the US – survive without large merchant fleets of their own. And London's role as a maritime centre has more to do with the capital's importance as a global financial centre than with the size of Britain's already much-diminished fleet.

It is true that other countries' tax breaks have made the playing field uneven for Britain, but that is an argument for removing the lumps, not for the introduction of new ones. Britain's tax regime does deserve criticism for its hostility to capital investment, but selective alteration in favour of the shipping industry is no solution. The Treasury would rightly argue that subsidies to poorly performing industries are destructive, because they divert investment away from better performing parts of the economy.

A more seductive argument is the defence one. Although defence strategists suggest another prolonged world war is unlikely in the post-nuclear age, the Gulf crisis serves to remind us of how suddenly a localised need for supply vessels may erupt. It is unclear, however, why that need should not be filled by chartering on the open market, as the US is doing now. If uneconomic, specialised vessels need to be kept in reserve, the Defence Ministry could offer grants to encourage their ownership in return for immediate availability in times of emergency.

If the Government does find itself with money to throw at the transport industry, it can find plenty of better uses elsewhere. It is alarmist to suppose that the UK's shipping companies will disappear without state aid; it is wrong to suppose that their disappearance would be an irreparable blow to the country. Long may they prosper: but not at the rest of the country's expense.

Radical techniques pioneered by Japan pose a challenge to the mass production of western manufacturers, says **Kevin Done**

A 'lean' revolution in car making

The disparities in the performance of the world's leading car makers are enormous, and they carry deeply disturbing implications for the future control and ownership of what is still the world's largest manufacturing activity.

No matter what the yardstick – efficiency and productivity in design, development, manufacturing and distribution, or the quality and reliability of the finished product – the gap between the best and worst performers is both noticeable and growing.

The Europeans take more than twice as many hours as the Japanese to assemble a car. It takes the Europeans and the Americans almost double the engineering effort to develop a new car compared with the Japanese, and the Japanese will be finished in two-thirds of the time.

A provocative study to be published this autumn after five years of research led by the Massachusetts Institute of Technology suggests that the differences stem from a revolution in manufacturing as sweeping as the triumph of mass production over craft production earlier this century.

The $5m, 14-country study undertaken by the International Motor Vehicle Programme at MIT – to be published as a book entitled The Machine That Changed The World* – maintains that a new way of making things, for which the authors have coined the phrase "lean production", is making mass production obsolete. The study claims that the implications of the manufacturing revolution under way in the vehicle industry can be applied to other industrial sectors.

Twice in this century the auto industry "has changed our most fundamental ideas of how we make *things. And how we make things* dictates not only how we work, but what we buy, how we think and how we live," claim the directors of the study, Daniel Roos, James Womack and Daniel Jones.

The world has become used to seeking explanations for the disparities between the leading car makers in cultural differences, in forms of social organisation, or in wage levels, the cost of money, or unfair exchange rate advantages. Explanations are also sought in the form of miracle cures from what is perceived as the Japanese way of developing and producing cars. The advantage lies in quality circles, team-working, continuous improvement or just-in-time supply systems. New Japanese buzz words, from *kanban* to *kaizen*, have entered western vocabularies.

As car makers in North America and in Europe retrench in front of the apparently relentless advance of the Japanese automotive industry, solutions are sought in protectionism, in import quotas and local content rules.

Lean production may have arisen first in Japan – the concepts were pioneered after the Second World War by Mr Eiji Toyoda and Mr Taiichi Ohno at the car maker Toyota – but other Japanese and western groups are successfully implementing elements of lean production, most notably in North America.

The study suggests that the recovery of European car companies will depend on how fast they can come to grips with and change over to lean production. "The companies that first mastered this system were all headquartered in one country – Japan. As lean production has spread under their *aegis*, trade wars and growing resistance to foreign investment have followed."

The MIT team takes issue with claims that the world auto industry faces a massive over-capacity crisis, estimated – by Ford among others – at more than 8m units in excess of current world sales of about 50m units. "This is a misnomer. The world has an acute shortage of competitive lean production capacity and a vast glut of uncompetitive mass production capacity. The crisis is formed by the former threatening the latter."

While many western companies may now understand lean production and at least one, Ford, is well along the path to introducing it, the MIT study says gloomily that in the absence of a crisis threatening the very survival of a company, only limited progress in changing from mass production to lean production is possible.

It says that General Motors of the US, the world's biggest car maker, best exemplifies the problem. "In the age of lean production, it finds itself with too many managers, too many workers and too many plants." GM has not yet faced a life-or-death crisis, however, as Ford did in the early 1980s, and as a result has been unable to change.

How does lean production differ so essentially from mass production?

According to Roos, Womack and Jones, the mass producer uses nar*rowly skilled professionals to design* products made by unskilled or semi-skilled workers tending expensive single-purpose machines. These churn out standardised products in very high volume.

Because the machinery costs so much and is so intolerant of disruption, the mass producer adds many buffers in the shape of extra supplies, extra workers and extra space in order to ensure smooth production. Because changing over to a new product costs even more, the mass producer keeps standard designs in production for as long as possible.

The lean producer, by contrast, uses teams of multi-skilled workers at all levels of the organisation, and employs highly flexible, increasingly automated machines to produce lower volumes of products in great variety.

The MIT study uses the term "lean" production, because the system uses less of everything: "half the human effort in the factory, half the manufacturing space, half the investment in tools, half the engineering hours to develop a new product in half the time."

The beginnings of lean production techniques can be traced back to the early days of Toyota when the company was beset by strikes. In 13 years Toyota had by 1950 produced 2,685 cars compared with the 7,000 (cars and kits) a day that were pouring out of Ford's vertically-integrated complex at Rouge close to Detroit. Today Toyota is the world's third-largest car maker and is close to capturing 10 per cent of the world car market.

Mr Ohno began by re-thinking processes in the metal-stamping shop and the final assembly area, but eventually the principles of lean manufacturing have been applied throughout the manufacturing chain from assessing the wishes of customers, to design, development, engineering, manufacturing, the components supplier network, final assembly and distribution.

In the MIT analysis, Mr Ohno's thinking on rework was inspired. He reasoned that the mass production practice of passing on errors to keep the line running, caused errors to multiply endlessly. He placed a cord above every work station and instructed workers to stop the whole assembly line immediately if a problem emerged that they could not fix. Then the whole team would come over to work on the problem.

The Toyota Production System and from it lean production has taken a couple of decades to develop, but the results have been impressive. "Today, Toyota assembly plants have practically no rework areas and perform almost no rework. By contrast, a number of mass-production plants devote 20 per cent of their plant area and 25 per cent of their total hours of effort to fixing mistakes."

The testimony to this achievement comes from American buyers' reports on the quality of rival products. Toyota's vehicles, says the MIT study, have among the lowest number of defects of any in the world, comparable to the very best of the German luxury car producers.

The data on which the MIT conclusions are based come from what is claimed to be the most comprehensive international survey of the auto industry ever undertaken. The International Motor Vehicle Programme has visited and gathered information from more than 90 plants in 17 countries, about half of the assembly capacity of the entire world.

The European luxury car makers are not spared from investigation, and indeed the MIT team concludes that their disturbing findings about American and European volume car makers apply just as devastatingly to luxury car makers such as Mercedes-Benz and BMW.

A Japanese plant required half the effort of the American luxury car plants, *half the effort of* the best European plant, a quarter of the effort of the average European plant, and one-sixth the effort of the worst European luxury car producer. On a visit to the high-quality but low-productivity German luxury car plant, the MIT team describes the scene.

"At the end of the assembly line was an enormous rework and rectification area where armies of technicians laboured to bring the finished vehicles up to the company's fabled quality standard. We found that a third of the total effort involved in assembly occurred in this area. The German plant was expending more effort to fix the problems it had just created than the Japanese plant required to make a nearly perfect car the first time."

The MIT team examines some of the most frequent explanations for the yawning disparities between car makers and plants:

- The degree of automation. Automation does affect productivity, but "at any level of automation the difference between the most and least efficient plant is enormous . . . High-tech plants that are improperly organised end up adding about as many indirect technical and service workers as they remove unskilled direct workers from manual assembly tasks."
- Manufacturability or ease of assembly. Trades union leaders are interested in whether the competitive gap arises from the manufacturability of the product rather than from the operation of the factory. The conclusion is that ease of manufacture is one of the most important results of a "lean-design process."
- Product variety and complexity. The study debunks the idea that a more focused factory is the solution to competitive problems. "The plants with the highest 'under the skin' complexity also had the highest productivity and quality." Not surprisingly these were Japanese plants in Japan.

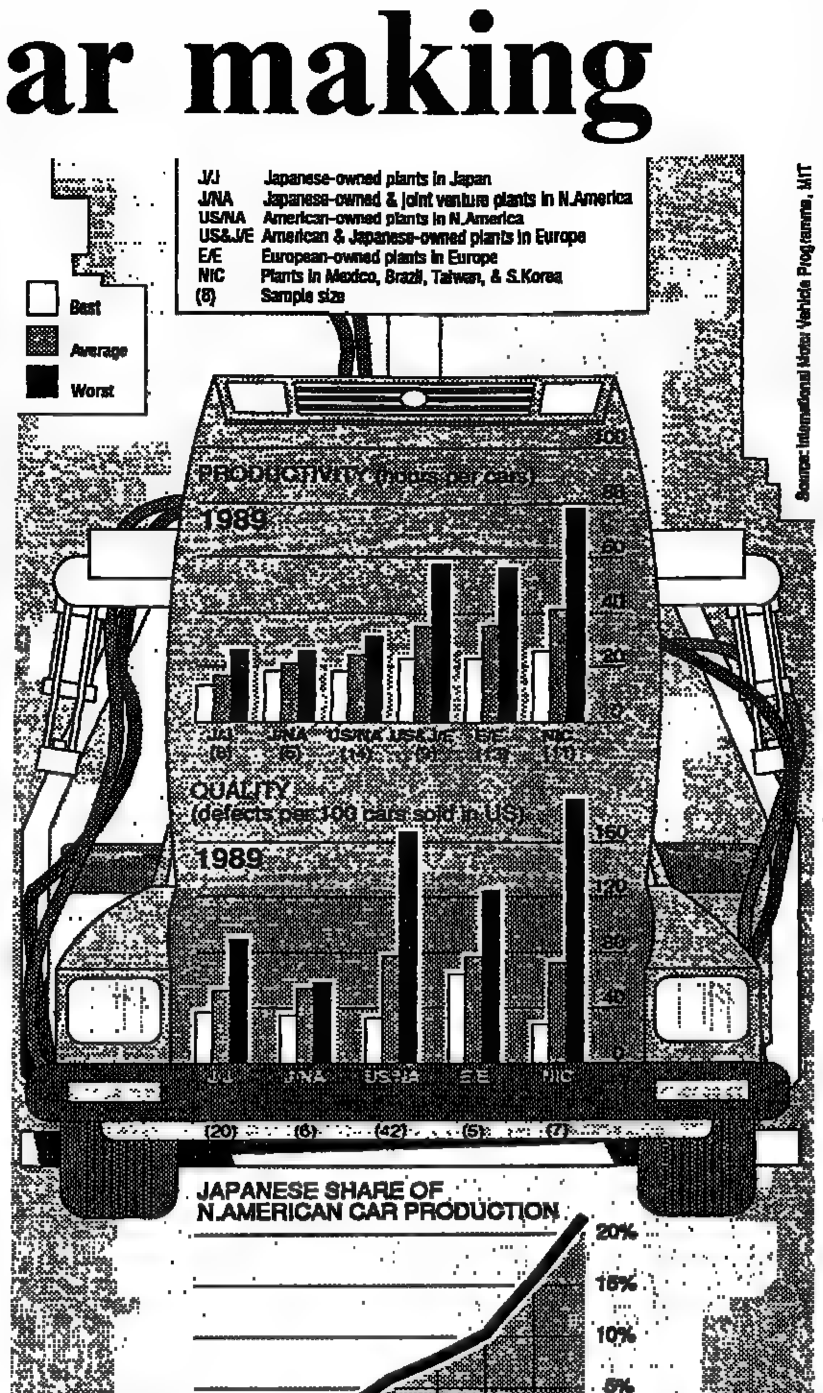
None the less, the MIT researchers insist that their study has shown that it is too simple now to equate "Japanese" with "lean" production and "western" with "mass" production. The levels of achievement vary greatly in Japan itself as well as elsewhere in the world.

The challenge of lean production applies throughout the automotive manufacturing chain. The gap in productivity and quality in the assembly plant has been apparent for some time, but it is now in new model design and development that some of the most alarming disparities are to be found. They add credence to the impression that traditionally organised western car makers are in danger of being swamped by an array of new products, developed with much shorter lead times and with much shorter life cycles.

As lean production techniques are diffused by Japanese producers around the world the challenge to western car makers takes on huge proportions. There are 11 Japanese assembly plants and three engine plants operating in North America, and the focus is now moving to Europe. In the US Japanese cars are already taking 30 per cent of the market, and the transplants accounted for 21 per cent of US car output in the first six months this year.

"In effect between 1982 and 1992 the Japanese will have built in the US mid-west an auto industry larger than that of Britain or Italy or Spain and almost the size of the French industry. By the late 1990s the Japanese companies will account for at least a third of North American car production capacity – perhaps much more – and have the ability to design and manufacture entire vehicles in a wholly foreign culture 7,000 miles from their origins."

*Rawson Associates, New York, $22.50.



A brewing renaissance

■ The FT has published two marvellously informed and passionate letters this month. Of course, we only print letters like this but these two were exceptional because they focused on the essence of life itself – beer and cricket.

On a technicality, William Wallace's last Tuesday was more about the lack of truth in advertising in British rail commercials than about cricket pitches in Yorkshire, but both he and Richard Dolphin, writing on September 5 about the destruction of quality brewing in the Midlands following Greenall Whitley's takeover binge, displayed real knowledge and feeling about necessary traditions.

Mr Dolphin, I imagine, will be particularly distressed at the news that Asahi beer from Japan will presumably be flooding into Britain as a result of the Elders IXL-Grand Met deal. But, in consolation, it may be pointed out that Asahi is perhaps the only truly renaissance brewer in Japan, possibly with a taste to match. Among its recent acquisitions are the Lucas Carton restaurant in Paris (Alain Senderens, of that illustrious ilk, prop), a Manhattan art gallery, and a couple of classy golf courses in France and Britain.

It might also make decent beer. For years, the domestic Japanese beer market was pretty boring. Two out of every three bottles sold were made by Kirin, without which no self-respecting Japanese household would survive, and the universal taste was a little bland. Then Asahi came along with its "dry", now elevated naturally in adspeak to "super dry", concoction. This, one of our Tokyo staff, an Australian and therefore not objective, describes, with a sneer, as "more alcoholic and more crisp". It is also now purveying something called "super yeast". The net result is that Asahi now has about a quarter of domestic beer sales, industrial production is soaring, and the stock market isn't.

It has an even bigger bottle in Hiroshima, because of the extraordinary and sometimes liquid relationships in Japan called "keiretsu". Just as no self-respecting Mitsubishi man would ever dream of forsaking Kirin, because of the corporate connections, so the long links between Asahi and Mazda, Hiroshima's largest employer, are reflected in the local bars – and also perhaps in the fact that since the introduction of "super yeast" the once splendid Hiroshima baseball team has gone into sharp decline.

OBSERVER

Tokay tomorrow

■ Equally shocking to the Hungarians, and possibly to Mr Wallace, is the news that a former Soviet Marine fighter pilot, has been hired to run Ganz Marvig, a manufacturer of railway rolling stock in Budapest.

This remarkable piece of headhunting (if that is the right word) has been brought off by Tom Speir, managing director of the northern operation of Goddard Kay Rogers in Leeds, which has a cricket pitch of some repute. Ganz Marvig was bought last year by Yorkshire's Hunslett Holdings, the locomotive-making subsidiary of Telfos, and it needed an Hungarian-speaker versed in western business methods to run it.

Speir's logic was that suitable candidates would probably have left the eastern bloc during the Cold War and gone to such places as Canada and Australia, where they had relatives and where the spirit of entrepreneurship might flourish. So he found Boris Shkolnikov, a successful engineering consultant, in Ontario.

Shkolnikov was born in an Hungarian-speaking part of Russia and went to university in Leningrad after military service. He moved on to Hungary to work for the government, married a local doctor, was declared stateless and managed to get out with his wife in 1976.

However, it is hard to avoid the thought that political migration is now getting very unpredictable. It is always possible that Shkolnikov is really leaving Ontario because the New Democratic Party swept to power in the province 10 days ago. The NDP, after all, is a long way to the left of the current regime in Budapest.

"Somehow I pictured him with longer horns."

Rose and Crown

■ While on the subject of relics of empire, there are more changes at the Crown Agents, once responsible for supplying food and clothing to Britain's colonies. Nowadays a procurement agency for goods and services for the developing world, it has a new chairman from October 15 in the shape of born-and-bred Brummie, David Probert.

Mr Probert's appointment departs from previous trends. The 52-year-old chairman of W Canning, the Birmingham-based speciality chemicals and electronic components distribution group, follows in the footsteps of a succession of urbane City knights. His predecessors are Sir Peter Graham, chairman of Standard Chartered, Sir Sidney Eburne, ex-Morgan Grenfell, and Sir John Cuckney, company doctor extraordinaire.

Does the appointment of a hands-on nitty-gritty manager as chairman suggest that the Crown Agents is being prepared for its long-touted privatisation?

Mr Probert, from a city which gave birth to the Chamberlain political lineage, already has the deft response.

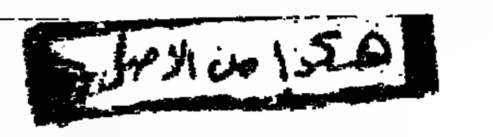
"The Government is the shareholder so it will always make the ultimate decision. It's like Canning: you have to do what is right for the shareholders, then make sure the implications are right for the customers and employees."

Free house

■ At least occasionally economists descend to the realms of the comprehensible. Thus from a recent meeting of the Mont Pelerin society of free-market thinkers comes a practical answer to the conundrum, which keeps people awake at nights, of why the argument for free trade must be an argument for unilateral free trade.

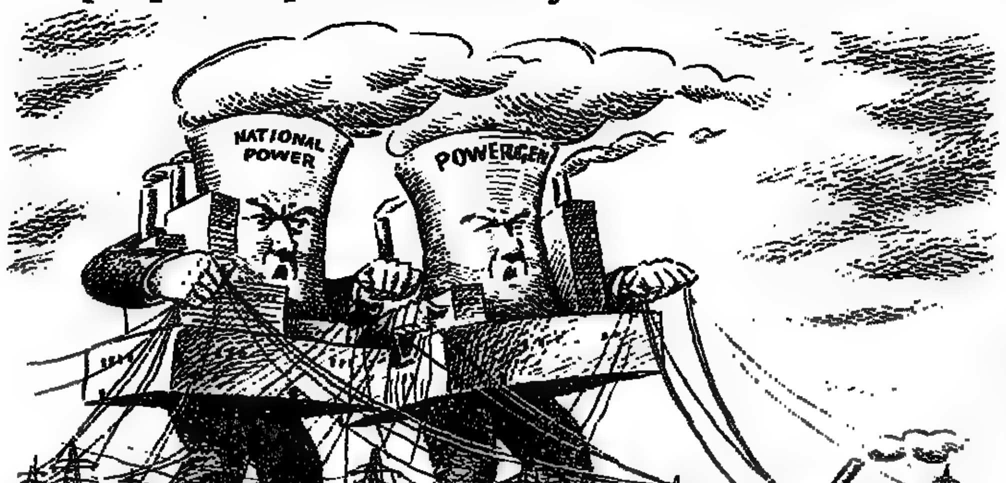
Suppose an American pharmaceutical company were to discover a cure for heart disease and a Japanese competitor one for cancer. Suppose also that the Japanese government were, for some inscrutable reason, to keep the American cure out of Japan. Would it then be sensible for the US government to keep the Japanese cure for cancer out of the American market?

Jurek Martin



Principal player in the electricity game

David Thomas looks at a UK power station proposal spearheaded by Enron of the US



Mr Darrell Bevelhymer was sitting in Dallas quietly going about his business of negotiating electricity contracts for Texas Utilities, the largest power company in Texas, when he received a surprise call. Would he mind travelling to Birmingham to help out with some negotiating there? No, not Birmingham, Alabama. Birmingham, England.

That was last autumn. Since then, the 43-year-old engineer and director of marketing services at Texas Utilities has been pitched into the middle of Britain's electricity privatisation programme, the most radical attempt to inject market forces into power generation ever attempted.

"The companies here are going through a traumatic change. In the US, electricity utilities are slowly evolving into a less regulated industry. Here, it's much more of a revolution than an evolution," Mr Bevelhymer says of his 10-month stint working for Birmingham-based Midlands Electricity, one of the 12 regional electricity companies due to be privatised in November.

For much of that time, Mr Bevelhymer has been eyeball-to-eyeball with fellow Texans. He has acted as Midlands' chief negotiator with Enron Power Corporation, the Houston-based company which has spearheaded the proposal to build one of the world's biggest gas-fired power stations at the chemicals complex of Imperial Chemical Industries on Teesside. The project is the biggest to emerge to challenge the duopoly of National Power and PowerGen, the two generating companies in England and Wales.

Final contracts for the £700m power station were signed last Monday evening at the offices of City solicitors, Slaughter & May.

A group led by Amoco and British Gas signed contracts guaranteeing the supply of gas, which will be brought to Teesside from the Everest and Lomond gasfields in the North Sea in a new pipeline. ICI agreed to take 257 megawatts of electricity, about 15 per cent of the station's 1,725 MW capacity, as well as steam for its Teesside plants. Enron, which will build and operate the power station, signed contracts with four regional electricity companies, including Midlands, for most of the remaining electricity.

Then there were contracts governing the site services to be provided by ICI for the power station; understandings about what will happen to the large quantities of gas not needed by the power station; and the equity split, with 50 per cent of the station owned by Enron and 50 per cent by the four electricity companies.

In the view of Mr Bryan Townsend, Midlands Electricity's chairman, this roll call of contracts (and there were many more) explains the demand for Mr Bevelhymer's services. Only the US has experience of negotiating power supply contracts in anything like the competitive market being created in Britain.

Under the previous electricity regime, Mr Townsend argues, deciding to build a power station was the easy part: the Central Electricity Generating Board, the nationalised monopoly, took the decision and passed the costs through to its customers. The difficult part was building the station to time and cost.

In the new world, the problem lies in deciding on a project in the first place. There is no one player, like the CEGB, to make that decision. "It is all a lot more difficult to put together," Mr Townsend argues. In particular:

● A gas supply contract has to be signed, so that the power station can determine the price of its electricity.

● A power purchasing agreement guaranteeing long-term customers for the station has to be signed, so that the venture can approach the banks for project financing.

To make matters worse, these deals have to be done simultaneously: no gas company will agree to build a pipeline to a new power station unless it knows the station has long-term customers; equally, no electricity supply company will sign long-term contracts to take power from an independent station unless it knows the station has supplies of cheap gas.

Once the decision to go ahead has been made, however, the difficulties are less severe. That is because no independent power operator in its right mind will experiment with state-of-the-art technology or unique designs. Enron will model the Teesside power station on a plant it built outside Texas City for Union Carbide. Mr Robert Baldwin, president of Enron Power UK, said this would allow Enron to build the station in 30 months – quick by previous UK standards.

Before it got to this stage, however, Enron and the other principal players had to jump through a large number of hoops. The story starts back in mid-1988 when Enron sent scouting missions to the UK to look for opportunities opened up by privatisation. Since Enron has specialised in the US in building power stations on large chemicals sites, it was natural for its emissaries to find their way to ICI.

For its part, the chemicals giant was interested in encouraging a gas pipeline. "We've known for a number of years that it would be good for us to have a gas supply straight to our plants in Teesside, rather than having to buy from British Gas," explains Mr Andy McLeod, ICI's Teesside-based operations manager for petrochemicals and plastics.

Enron's power station would create enough demand for gas to interest a North Sea operator in building a pipeline to Teesside. ICI also saw three other benefits from the project: cheap electricity for its Teesside complex; cheap steam for some of its plants, notably its nylon plant at Wilton; and a supply of gas and various feedstocks for its operations there.

The involvement of a heavyweight like ICI was enough to interest Amoco, operator of the pipeline. Amoco says that it had been planning to run a pipeline to St Fergus in Scotland, but it was persuaded otherwise by the ICI-Enron approach. Since the 250-mile pipeline into Teesside, together with the development of the two gas fields, would cost more than £1bn, long discussions were needed to convince Amoco to go ahead.

Meanwhile, in the early part of 1989, Enron had been looking for a partner in the UK electricity industry to take that part of the station's output not needed by ICI. Initially, Enron's eye fell upon National Power, the largest generating company in the UK. Lengthy negotiations with National Power collapsed in February 1990. One problem was the generous offer tentatively made by Enron to ICI, which National Power thought would leave it with less scope to make money out of the project.

Luckily, Enron had been separately discussing other projects with three of the regional electricity companies – Midlands Electricity, South Wales Electricity and South Western Electricity. Making virtue out of necessity, Enron invited these three companies to join the Teesside venture, also extending the invitation to Northern Electric, the local electricity company.

Negotiations on the 20-30 contracts involved in the project took up the early part of this year. One problem arose when ICI, preferring to invest in its core businesses, unexpectedly decided against taking an initial stake in the power station. It retains an option to take 10 per cent from Enron's equity when the plant opens in April 1993.

Some of the electricity companies were also dismayed at the deal offered to ICI. "In the sharing up of the benefits, the scale is probably on ICI's side," said one participant.

Yet Enron was also able to offer the four electricity companies cheap power. Enron's Mr Baldwin says the power station's total costs, including capital charges, will be lower than the running costs of other large UK power stations. The power station benefits from cheap gas, from sharing services with ICI and from exceptionally low staffing.

Yet it would be wrong to conclude that there will be a rash of similar projects. The Teesside venture has got this far thanks to an unusual concurrence of circumstances. Other large companies, such as British Petroleum and Shell, have considered similar projects and decided they have better ways to spend their money.

LOMBARD

Sanctions versus war – a sober view

By Samuel Brittan

In 1985, two American scholars, Gary Hufbauer and Jeffrey Schott, produced for the Washington Institute for International Economics a study of more than 100 cases of economic sanctions undertaken in aid of foreign policy goals.* The examples go back to 1914; the great majority are after the Second World War. It is easy to mock the project as an instance of the American zeal for quantification. But the study does add something to an intuitive historical summary.

The criteria given for the success of sanctions are not ambitious. The authors emphasise that success "does not mean that the target country was vanquished." It may mean no more than that "sanctions made a modest contribution to the goal sought by the initiating country, and that the goal was in part realised."

The table shows that the "success" ratio has been low – achieved in only 36 per cent of the cases – and has fallen markedly since 1973. The detail is still more discouraging. For action against Iraq would not count in the table as "disruption of military adventures," as Iraq has already conquered Kuwait. It counts instead as aiming at "other major policy changes." Here, the success ratio is only 18 per cent.

The authors have several commandments for maximising the chances of success. The most cynical is: "Attack your allies, not your adversaries."

Unfortunately, many of the key failures were US attempts to induce countries such as Pakistan or Argentina to improve human rights or stop nuclear proliferation.

The commandment most relevant today is Macbeth's: "If it were done, when 'tis done, then 'twere well it were done quickly." A strategy of gradually turning the screws is likely to fail. Anything more than six months affords the target the chance to adjust – find new suppliers, build alliances, and mobilise opinion.

The final commandment – "look before you leap" – says that the goals should be within reach, that sanctions should not be offset by other powers, and should not impose excessive costs on their initiators.

Unfortunately, problems blow up far too quickly for this counsel of perfection to be followed. Sanctions are often the minimum action required to show that the UN or the West, cares to make a stand. The advice applies more to military action if sanctions fail.

But having recorded these discouraging results, it is only right to emphasise that the authors of the study themselves believe that Iraq may be the exception that proves the rule. Indeed, they give the present sanctions a slightly more than 50 per cent chance of modest success, with a good deal of emphasis on the word "modest." Some seven in eight of the outside scholars whom they polled agreed.

In a follow-up paper, *Iraq*

'Success' might be less than clear triumph for Bush

Sanctions, Gary Hufbauer and Kimberley Ann Elliott begin with a warning quotation from Machiavelli: "Whoever has to contend against many enemies may nevertheless overcome them though he be inferior in power, provided he is able to resist their first efforts." They cite the absence of internal opposition to Saddam Hussein and the difficulty of persuading Iraq to disgorge land effectively held by its army. Another discouraging aspect is the military cost to the Allies – at least $30bn per annum.

But they believe that scales are tipped by the extent of international co-operation and the draconian economic impact on the victim. This is said to impose a loss on Iraq (including Kuwait) of 40 per cent of gross national product. They also cite the limited proportion of trade subject to leakages, even including Iran, as well as Jordan and Yemen.

The sanctions record

Policy goals	Success ratio (% of total)
Modest changes	41
Destabilisation	53
Halt to military adventures	33
Mil. impairment	20
Other major policy changes	18
Total	36

Source: See text

The assessment allows for leaks. Indeed, it assumes that food supplies will not be seriously blockaded. The critical question is the extent to which spare parts can be supplied and oil sold, for instance, across the Iranian border.

The nearest parallel, according to Hufbauer, is the League of Nations' unsuccessful attempt to make Italy withdraw from Ethiopia in 1935-36. This time, however, the cord is much tighter. For the US was never even a member of the League; Germany gave Italy help; and British leaders, such as Baldwin, were half-hearted in their support for Eden.

He warns that success might be much less than a clear triumph for President Bush. He told me that a qualified victory, in which Iraq left Kuwait, but maintained links with the disputed Gulf islands and was forgiven its overseas debt, would still count as a success. Nor would the Emir necessarily return to Kuwait (Bush has spoken only of restoring the legitimate government).

But the limited nature of any likely success from sanctions does not constitute a case for military action instead. Mr Hufbauer reckons that political support for military action usually peaks even earlier, typically after about a month. He concedes that the interval before military action was much longer in the case of Suez and the Falklands as well as recently in Panama. On the other hand, western casualties were very much less than are feared in Iraq. Even if Saddam is defeated fairly quickly, 10,000 westerners might be killed, 5,000 of them hostages.

The moral that I would draw is certainly not to give in to Saddam, but to remember: the folly of demanding unconditional surrender; the need to remain in contact with the enemy and to give him – as in the Cuban crisis – a face-saving way of withdrawal.

**Economic Sanctions Reconsidered, Institute for International Economics, 11 Dupont Circle, Washington, DC 20036*

LETTERS

A short-sighted shortage of ships

From Mr John Newman.

Sir, In the same issue (September 13) as your excellent feature about the catastrophic decline in British merchant shipping, a report on page 2 highlights US concern about a shortage of roll-on, roll-off ships for transporting military equipment to the Gulf.

After years of seeking to abolish operating subsidies for its merchant ships, the US is now reconsidering this short-sighted policy.

The US merchant fleet is now so small that it cannot meet the needs of the US armed forces. Faced with this critical shortage, the US has had to appeal to its allies to supply merchant ships for transporting military equipment and personnel to the Gulf.

Unfortunately for the Americans, this same narrow thinking which allowed its merchant fleet to decline has characterised official British policy towards the shipping industry. Since the Task Force sailed south to the Falklands only eight years ago, the British-registered merchant fleet has shrunk by nearly two-thirds – from 985 vessels to fewer than 350.

Now that our forces are heading east to meet a threat in the Gulf, our merchant fleet is too small to provide the "fourth arm" of support it has traditionally given our armed forces.

UK seafarers can only hope that our Government will now realise the strategic danger of allowing the fleet to decline. It is not too late to introduce the measures we have sought over many years, which will restore the fortunes of the British merchant navy.

John Newman,
General Secretary,
Numast,
Oceanair House,
750-760 High Road,
Leytonstone, E11

Reverse engineering could be misused

From Mr A.B. Cleaver.

Sir, Articles on the European Software Directive report the formation of the Computer Users of Europe Association, and the positive involvement of users in presenting their views on this issue. Your article "Computer users fight EC software directive" (September 10), and your editorial "Computer users on the warpath" (September 11), do, however, suggest misconceptions of the issue and of my company's position.

Both articles indicate that the directive as originally drafted carried the intention of banning the practice of "reverse engineering." In reality, however, the directive (in common with other recent legislation elsewhere) was silent on the issue.

Over the past 10 years, five EC member states (Denmark, France, Germany, Spain and the UK) have enacted legislation according copyright protection to computer programmes. Not one of these states has enacted a specific provision to permit reverse engineering, and if the EC directive does so it will be a worldwide precedent.

The European software industry is thriving and growing, and misuse of reverse engineering provisions would undermine this. There is a world of difference between legitimate analysis on the one hand, and copying for piracy purposes on the other – but both these could be described as reverse engineering.

Your editorial also implies that IBM has, in the past, inhibited the attachment of compatible systems by refusing or delaying permission for users or competitors to reverse engineer in order to design inter-operable systems.

The fact is that we respond immediately to all requests for information on IBM products in support of attachment. Indeed, our standard practice is to publish the information necessary to perform such activity in the documentation provided with our products.

While we believe that Open Systems Standards provide users with the best guarantee of the ability to attach, we have also supported the idea that some limited provision for reverse engineering should be made within the directive to encapsulate principles of access.

Your suggestion that the "fair use" concept which exists within the present UK Copyright Act is a good basis for defining these exceptions is one which we have supported for some time.

I entirely agree with your view that this represents a simple, commonsensical solution to the debate.

A.B. Cleaver,
IBM United Kingdom,
PO Box 41, North Harbour,
Portsmouth, Hampshire

The debt burden has not yet been dealt with

From Mr Frank Judd.

Sir, Oxfam is concerned about the poverty, suffering and distress aggravated by the growing international debt burden of the poorest countries of the world. The responsibility for this situation lies partly with governments of industrialised nations, but their response has, until now, been disappointing.

The Toronto Accord, agreed two years ago, was intended to alleviate the mounting debt problems of the countries to which it applied. It has proved embarrassingly ineffective. In its first year, it provided just $50m of debt relief to sub-Saharan Africa – considerably less than was provided to that region by British non-governmental organisations alone.

This inadequacy was recognised at this year's Houston summit of finance ministers of the Group of Seven nations, which said a new debt initiative was needed for the low and middle income countries. It was also recognised that further efforts should be made to ease the debt burden of low income countries.

Oxfam urges that this important issue be taken forward at the Commonwealth finance ministers meeting today, and at the International Monetary Fund and World Bank AGMs at the end of September.

Since Mr Lawson, the then UK Chancellor of the Exchequer, proposed the plan on which the Toronto Accord was based, we hope that the UK will now be able to take a lead in proposing a new initiative in response to the Houston summit, this time with the hope of more effective, lasting action to the benefit of both low and middle income countries.

Frank Judd,
Director, Oxfam,
274 Banbury Road, Oxford

Country ways

From Mr David Sinclair.

Sir, Miss Ashbrook's letter (September 11) and Michael Stourton's article (September 1) highlight two differing views of the purpose of most rural footpaths. One is the "pleasant and enjoyable walk." The other is a convenient walk. Miss Ashbrook (like the Ramblers Association) quotes the law: a diversion must be "substantially less convenient to the public" for opposition to a proposed change to succeed.

For the likes of Michael Stourton, the concept of convenience being related to direct route is irrelevant. There can be few rural footpaths still being used to satisfy a social need. So landowners, local users, the Open Space Society and the Ramblers Association should together evolve a code to satisfy most landowners and most footpath users.

Miss Ashbrook's argument that we do not want to lose the ancient routes has no validity. Such routes are rarely "ancient." They have been evolving, and their direction and purpose changing, over the centuries. The route of a footpath has no intrinsic value, unlike, say, trees and buildings.

In my own experience of "moving" a footpath, I was appalled at the waste of ratepayers' and taxpayers' money by Ramblers Association opposition on the grounds that any diversion should be opposed.

In fact, as my local parish council and the elected and paid representatives of the county council recognise, my proposed deviation, while marginally longer, provides a better view of the surrounding countryside, a more rural route as it avoids a dwelling, a less muddy route in the winter and, because it follows a headland, a more identifiable route than the existing path.

If landowners would only recognise that the "professional" walker is probably a member of either of the two main organisations, and therefore sympathetic to the countryside, and if the two organisations could recognise the business needs of the modern farmer, then the two sides should be able to come together. Sensible diversions could be agreed which would be more convenient to the farmer and more enjoyable and pleasant to the walker.

David Sinclair,
Vine Farmhouse, Isington,
Alton, Hampshire

continued on next page

FINANCIAL TIMES
Monday September 17 1990

SOUTH AFRICA

De Klerk rounds on critics over violence

By Philip Gawith in Johannesburg

F.W. DE KLERK, the South African President, has attacked church and political leaders who blame the Government for the violence which has cost more than 750 lives in Witwatersrand townships since last month.

Speaking over the weekend at Middelburg in the Cape Province, Mr de Klerk said: "Every upheaval, every death, every house that burns down is also a charge against the political leaders who can't control their people." To these leaders he said: "It is also your people taking part in the violence."

After his meeting with the South African President on Friday, Mr Nelson Mandela, the African National Congress (ANC) deputy president, claimed that Mr de Klerk had been won round to the ANC view that the violence was largely the work of a right-wing conspiracy.

Mr de Klerk, however, restated the Government's view that the violence was essentially tribal in character. He said violence was no longer primarily aimed at government forces, or at the overthrow of the state. "Nowadays violence focuses on internal fighting between black and black."

In an indication that he gives at least some substance to Mr Mandela's charges, Mr de Klerk added: "It does appear, however, as if this situation is being used and misused by some or other force. Who they are must be ascertained.

"It is true that the latest murders by men on innocent commuters and from mini-buses on innocent bystanders point to some sinister plot by well-organised terrorists or gangs. This adds a new and disturbing dimension to the violence of recent weeks."

In an attempt to defuse political and ethnic tensions, the Zulu King Goodwill Zwelithini and the paramount chief of Mr Mandela's Xhosa tribe, Tutor Ndamase, addressed a peace rally yesterday in Soweto's Jabulani amphitheatre.

"Nobody is entirely blameless," the king, the traditional but non-political leader of South Africa's biggest tribe, told the predominantly Zulu 30,000-strong crowd. "Any tendency for Zulus to strike Xhosa or Xhosa to strike Zulu must be eliminated now."

Mr de Klerk is expected to announce further measures today to curb the violence. They are in addition to steps announced on Saturday by Major-General Gerrit Erasmus, Witwatersrand Regional Commissioner of Police. These include a dusk-to-dawn curfew in Soweto and all other affected townships on the Witwatersrand, hostels and squatter camps to be cordoned off with razor-wire, and all township patrol-vehicles to be fitted with light machine-guns.

The measures came in for strong criticism from Mr Mandela, who said they "are not intended to deal effectively with the situation - they have not addressed the issue as it affects blacks, but as it affects the lives of whites."

Mr Mandela's comments appeared at odds with a call he made last week for the State to use "its powerful, effective and well-equipped security forces" to end the violence. The position may be made clearer after an emergency meeting of the ANC executive tomorrow.

World Bank annual report reveals change of emphasis in screening of projects

Environment moves higher up agenda

By Stephen Fidler and Peter Norman

ENVIRONMENTAL concerns are playing a bigger part in the World Bank's efforts to improve the quality of life in the developing countries that are its members, the bank's annual report shows.

The bank said that in its past business year to June 30 it introduced screening of all new projects to ensure that development plans were environmentally sound.

It also said that the number of projects that had been designed to include environmental elements increased during the year to 107, or 48 per cent, of 222 loans and credits approved in the period, from 85, or 38 per cent of the total, in the previous year.

The bank now acknowledges that it did not take sufficient notice of environmental considerations in earlier years.

All of its projects are now assigned to one of four categories, from projects with specific environment objectives to those which have no environmental effects.

The bank expects that the effect of its systematic incorporation of environmental assessments into its projects will first become noticeable in the current fiscal year. It plans to publish its first annual report on the environment on September 23.

The bank is also moving ahead with an environmental pilot programme, lending $1bn to $1.2bn on concessional terms over the next three years in four areas - protection of the ozone layer, reduction of gas emissions that contribute to global warming, preventing degradation of international water resources and preserving bio-diversity.

The fund is based on the premise that countries undertaking projects which benefit the environment in other countries should not be expected to bear the full economic cost of those projects.

One notable development in recent months was the approval of a $26m environment credit for Madagascar by the International Development Association, the World Bank affiliate that lends money on very concessional terms to the poorest developing countries.

Madagascar, which is 220 miles off south-east Africa, has an unrivalled intensity of unique fauna and flora.

According to the Bank, "98 per cent of the palm species are found nowhere else, as are 93 per cent of Madagascar's primates, approximately 80 per cent of all flowering plant, 95 per cent of all reptiles, and eight of its nine species of carnivores."

The bank's objective is to help the rapidly growing and impoverished Malagasy population improve their lot while conserving the island's biological diversity.

New lending commitments could reach $16bn-$18bn

By Stephen Fidler

THE WORLD Bank expects new lending commitments to increase to $16bn-$18bn in its current fiscal year, which started on July 1. Commitments from its soft-loan affiliate, the International Development Association (IDA), are expected to amount to roughly $5.7bn.

Of this, the bank expects to make new commitments of $2.5bn to east and central Europe, including some $800m-$1bn to Poland, $700m-$800m to Yugoslavia, and $300m-$400m to Hungary.

New loans for Romania, whose communist regime repaid all its World Bank debts, are also in prospect if a lending programme can be established.

Last year, Poland received commitments of $781m - it previously had none; Hungary $366m, up from $95m, and Yugoslavia $692m ($198m).

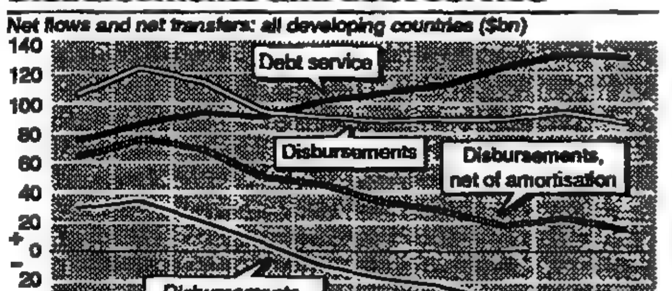
New commitments to all borrowers from the bank itself fell in fiscal 1990 to $15.18bn from $16.43bn, but loans actually disbursed rose to $13.86bn ($11.31bn). Net income slipped to $1.05bn ($1.09bn). The bank's loans outstanding expanded to $89.05bn ($77.94bn). New commitments from the IDA rose to $5.52bn ($4.93bn). Net disbursements also rose to $3.63bn ($3.4bn).

Net transfers to the World Bank from all its borrowers dropped sharply to $32m last year, from $3.83bn the year before. Including the IDA, there were net transfers to current borrowers of $3.37bn, against the negative transfer the previous year of $687m.

Net disbursements (new loans less repayments) rose sharply last year from $1.92bn to $5.72bn in 1989. This was partly due to the slowing of prepayments from Asian countries and from Romania that had depressed the 1989 total.

Disbursements and debt service

Net flows and net transfers: all developing countries ($bn)



Financial sector reform emphasised

By Stephen Fidler, Euromarkets Correspondent

THE World Bank, along with Third World economic policy-makers, has in the past neglected the importance of early reform of the financial sector, the bank admits in its annual report.

This conclusion – reached by a bank task force – revises its previous view which was that reform of the banking and financial markets should take place late in the sequence of economic change. This was partly because of the supposed danger that financial markets would tend to "overshoot", thereby jeopardising reform in the real sector of the economy.

Now, the bank says that while development of the real sector of the economy is a central goal of economic policy, "without parallel development of financial institutions, instruments and markets, the real sectors would stagnate".

The conclusion suggests, for example, that financial sector reform will be a relatively high priority in World Bank economic programmes for eastern Europe.

However, the bank warns that "liberalisation of financial markets can be dangerously destabilising if the preconditions for efficient competitive market operations are not in place."

Special attention should be given, therefore, to establishing suitable legal and regulatory frameworks and to strengthening supervisory institutions, and to making sure there is an appropriate macroeconomic background, it says.

THE LEX COLUMN

Ignore the oil gauge, check the pressure

The recent jump in the oil price, combined with last week's acceleration in published inflation in countries ranging from the UK and France to the US and Japan may just be sending out the wrong signals to the world's financial markets. When the dust of the Gulf conflict eventually settles, the markets could find they have been paying too much attention to the wrong enemy. Deflation could well turn out to be an even greater risk than inflation.

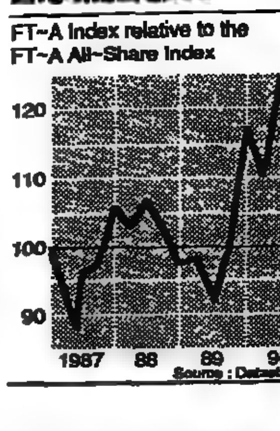
The sharp rise in petrol prices around the world was bound to catch the headlines. But its impact so far is relatively minor compared with the considerable tightening in global monetary policy which has been under way for over two years. Last month's rise in Japan's official discount rate was just the latest turn of the monetary screw. UK base rates have been doubled, short-term Japanese and West German interest rates have risen even more, and the growth of the world money supply has slowed dramatically. Money growth in France, for example, has halved over the last year and in the US is hardly growing at all.

The US and UK economies are already on the verge of recession, Australia and Canada are probably there already and the steady downgrading of corporate profits forecasts in Continental Europe suggests that the credit crunch is beginning to be felt there too. West European car sales, for example, fell by 3.9 per cent last month, confirming the end of a five year boom.

The global monetary squeeze is now working, if somewhat later than intended. Meanwhile, inflationary pressures are not as pronounced as the headlines suggest. The Economist's commodity price index, in SDR terms, is still 6.8 per cent down on a year ago, which in turn was 6 per cent down on the year before that. A much more serious worry could be that the well publicised problems in the US banking system, combined with the damage the sharp fall in the Tokyo stock market has wrought on Japanese bank capital ratios, will worsen the global credit crunch. Too little bank lending, can be just as dangerous as too much.

Life Insurance

FT–A Index relative to the FT–A All–Share Index



Gold

One, much maligned indicator which suggests that deflation could prove more of a threat than inflation, is the gold price. After Iraq invaded Kuwait, gold shot above $400 per ounce, but it has now retreated to a point less than 4 per cent above where it was before the conflict began. In terms of the Swiss Franc and Japanese yen, it has fallen over the period. It is well below where it was in 1987 and 1988 and less than 10 per cent higher than a year ago, notwithstanding the near doubling in oil prices, and the weakness in the US dollar.

There are all sorts of excuses for gold's uncharacteristic behaviour. Some big holders, such as Saudi Arabia and Brazil, have been selling a lot of metal. There are much more sophisticated instruments available for hedging political and financial risk these days. Middle Eastern demand has been rising, but this is likely to be more than offset by a reduction in jewellery demand, if there is a serious recession. High real interest rates rightly emphasise gold's unattractiveness, and if its persistent weakness really is signalling deflation this is something that other asset prices, be they property or equities, cannot ignore.

Life profits

Never mind the detail, look at the dividends. In the near-term, this is surely the only practical way for the stock market to approach the accounting reforms proposed last Friday by the great and good of British life assurance.

To be sure, there are some good arguments for changing the way companies like Prudential, Legal & General, and the composite insurers report their life profits. Last week's proposals from the Association of British Insurers would usefully eradicate one or two of the dottier features of insurance accounting. It would do so, though a great deal of controversy is possible, by using discounted cash flow to assess the expected future profitability of all the policies a life insurer has on its books. Part of those profits can then be allocated to the current accounting year, in such a way as to reflect the amount of work the company has done in the 12 months.

But the acid test for the stock market is whether the new system, if adopted, will affect the cash flow of life insurers, and their dividend paying potential. At the moment, the answer seems to be no, with the proviso that the Inland Revenue's likely reaction to the new system needs to be looked into. Hence life company share prices should not have moved at all on Friday, unless the rise had to do with something other than the ABI's 30-page green paper.

This is not to say that the ABI's work on the issue has been a waste of time. On the contrary, there has been a clear danger of anarchy breaking out in life assurance accounting, and it is important for the ABI to stamp it out. Newer entrants to the industry, including clearing banks such as Barclays, Lloyds and TSB, object to traditional profit reporting, partly because it can artificially depress earnings per share. Under those methods, the annual reported profits of a life company are identical to the shareholders' portion of the bonuses allocated to policyholders in that year. But when a policy is sold, the marketing expenses and the cost of setting up actuarial reserves are written off up front, meaning that the profits only emerge gradually. Hence a young, fast-growing life company will show lower earnings than an old, lumbering dinosaur. Second, the reported profits are heavily smoothed by the actuary: and this can be used to conceal an underlying deterioration in the company's trading progress. The ABI's proposed system appears to prevent just such obfuscation.

The other background issue is the impact on the industry's collective psychology of incidents such as Allianz's raid on Eagle Star, the battle for Equity & Law in 1987 and last year's takeover of Pearl. Rightly or wrongly, some insurance company managements have convinced themselves that the stock market systematically fails to give life company shares their full value. Admittedly, the empirical evidence for such a view is pretty scanty; life company shares have actually done extremely well since the late 1970s, a period in which Prudential's shares have outperformed the FT-A All Share by 25 per cent. But worried managements are apt to do strange things to their reported numbers: and hence the pressing need for the ABI to take some action.

Moscow rife with speculation on likely successor to Ryzhkov

By Quentin Peel in Moscow

PRESSURE is growing in the Soviet Union for a government of national consensus, including non-Communists, to carry out Professor Stanislav Shatalin's radical mass privatisation programme, if it is approved by the national and republican parliaments.

Moscow is rife with speculation about who might succeed Mr Nikolai Ryzhkov as Prime Minister, if he is forced to resign in the current battle over economic reform.

One leading candidate in popular perception is Mr Eduard Shevardnadze, the internationally respected Foreign Minister, and one of the few top government members seen as on the same ideological wavelength as President Mikhail Gorbachev. However, close colleagues say he is not looking for the job, and is exhausted by the schedule of his present post.

A second contender is Mr Anatoly Sobchak, the able and ambitious mayor of Leningrad. A lawyer, he is also a popular figure from national television.

Another possibility is Mr Gavriil Popov, the radical mayor of Moscow, who, like Mr Sobchak, has resigned from the Communist Party.

Mr Popov is an economist, whose unambiguous views on the need for privatisation, emergency rationing combined with price liberalisation, and dismantling the bureaucracy, are already starting to be carried out in the capital.

Yet both he and Mr Sobchak would be giving up strong power bases for a post of union prime minister which may well become increasingly powerless.

Some Moscow papers say that Professor Shatalin should be the new premier. But colleagues say his health is poor – he has had several heart attacks – and his temperament is seen as too academic.

An outside contender who has emerged in recent days is Mr Arkady Volsky, a top Communist Party central committee official who was formerly the special administrator for Mr Gorbachev in the strife-torn territory of Nagorno-Karabakh.

GM prepares to double exports from UK plants

By John Griffiths in London

VAUXHALL, UK subsidary of General Motors, is to more than double its scheduled exports from UK plants next year to 60,000 vehicles.

The move was prompted partly because of a sharp fall in domestic demand for new cars, but it also reflects a growing confidence by General Motors in Vauxhall.

The increase in exports from levels fixed only a few weeks ago is needed so that Vauxhaull can find alternative markets to keep production lines busy. The accelerating downturn in the UK new car market has led to a drop of about 11 per cent in Vauxhall sales for the first eight months of the year.

Under the revised plans, Vauxhall's plants at Luton, north of London, and Ellesmere Port in north-west England will export 80,000 cars between the last few months of this year and the end of 1991. The move will lead to a sizeable cut in the UK motor industry's large balance of trade deficit.

Mr Paul Tosch, chairman and managing director of General Motors' UK subsidiary, estimated that the industry's deficit cut would amount to £200m ($370m).

Only last month Vauxhall announced that exports to the European continent from Ellesmere Port were to be resumed for the first time in 15 years. The Luton plant has also made only token exports over the same period.

GM's renewed confidence in Vauxhall's quality and productivity has prompted a stream of decisions to expand capacity at both UK plants. The Luton facility, which produces the best-selling Vauxhall Cavalier – known as the Opel Vectra on the Continent – will have the ability to produce 45 cars an hour by the end of this year, up from 40 an hour now. This will create capacity for an output of 160,000 cars a year on a double shift against 121,000 last year. Some 58,000 of the 80,000 exports will be Luton-built Opel Vectras.

Ellesmere Port's capacity of cars and light vans is being raised to 125,000 from 115,000 last year, and the company hopes that unions will agree to raise capacity further from the end of next year through 24-hour, working. Exports from the plant will be Opel Kadetts, the Continental version of the Vauxhall Astra.

Vauxhall's unit sales position in the tightening market has been worsened by what Mr Tosch claims to be the company's decision to "walk away from" the type of financial sales incentives being offered by some manufacturers.

Vauxhall, which had made heavy losses for many years up to 1986, made a record £254m operating profit last year. It insists it will no longer sacrifice profitability in pursuit of market share.

Vauxhall is refusing to predict the prospects for exports beyond 1991, saying that decisions will not be made until well into next year.

Gulf aid for reform programmes

Continued from Page 1

later this week of the IMF and World Bank.

Meanwhile, the World Bank said yesterday it planned to increase its lending to the developing world over the next year and was exploring ways of helping nations hurt economically by the Gulf crisis. The Bank said it would boost lending to Eastern Europe, the Middle East and North Africa to at least $5bn in 1990-91 from $4.4bn last year.

Separate discussions will be held at the Washington meetings about the best form of assistance to other countries adversely affected by sanctions and higher oil prices such as Brazil, Uruguay, Pakistan and the Philippines. There is some dispute about whether other countries should be added to the "front-line" group.

Following talks among senior financial officials in Paris last week, there are no signs of any desire by industrialised countries to revive the kind of special compensatory IMF facilities developed after earlier oil price shocks.

Among the possibilities being discussed to assist the hard-hit is increasing the percentage of a country's total quota, or subscription in the IMF, which may be borrowed. Lifting the maximum in some circumstances might increase the average size of a programme from 55/60 per cent of a country's quota to, say, 75 per cent.

Officials expected developing countries to make strong calls for special assistance through the Group of 24, especially as an increase in oil prices to more than $30 a barrel is likely to cut world growth by at least ½ a percentage point.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	26	79
Algiers	S	32	90
Amsterdam	C	15	59
Athens	S	25	77
Bahrain	S	33	93
Bangkok	F	32	91
Barcelona		–	–
Beirut		–	–
Belfast	C	15	59
Belgrade	S	20	68
Berlin	F	[illegible]	[illegible]
Biarritz	F	26	79
Bombay	F	[illegible]	[illegible]
Bordeaux	S	27	81
Boulogne		–	–
Brussels	C	12	55
Budapest	S	17	[illegible]
Buenos Aires	F	17	64
Cairo	S	[illegible]	[illegible]
Cape Town	C	[illegible]	[illegible]
Caracas	C	30	86
Casablanca	C	23	73
Chicago	S	13	55
Cologne	F	15	59
Copenhagen	S	16	61
Corfu	S	24	75
Dallas	S	23	75
Dublin	C	16	61
Dubrovnik	C	21	70
Edinburgh	C	12	55
Faro	S	27	81
Florence	S	26	79
Frankfurt	F	16	61
Geneva	S	20	68
Gibraltar	R	25	77
Glasgow	C	13	57
Helsinki	F	12	55
Hong Kong	C	30	86
Innsbruck	S	17	64
Inverness	C	15	59
Islamabad	F	[illegible]	[illegible]
Istanbul	F	21	70
Jakarta	F	33	93
Jersey	S	17	64
Johannesburg	S	27	81
Lima	F	16	61
Lisbon	S	26	79
London	C	17	63
Los Angeles	S	17	63
Luxembourg	S	14	57
Madeira	S	26	79
Madrid	F	26	79
Majorca	S	29	84
Malaga	C	27	81
Malta	S	28	82
Manchester	S	16	61
Manila	C	32	91
Melbourne	C	11	52
Mexico City	F	[illegible]	80
Miami	S	[illegible]	[illegible]
Milan	F	20	68
Montreal	F	7	45
Moscow	R	11	52
Munich	C	13	55
Nairobi	F	27	81
Naples	S	25	77
Nassau	C	[illegible]	[illegible]
New Delhi	F	28	82
New York	S	17	[illegible]
Nice	C	23	73
Nicosia	S	28	82
Oporto	C	20	68
Oslo	S	14	57
Paris	S	17	63
Peking	T	22	72
Prague	F	12	[illegible]
Reykjavik	H	9	48
Rhodes	S	25	77
Rio de Janeiro	F	22	72
Rome	S	22	73
Salzburg	F	15	59
San Francisco	S	12	[illegible]
Seoul	F	[illegible]	[illegible]
Singapore	S	32	[illegible]
Stockholm	F	12	[illegible]
Strasbourg	C	17	63
Sydney	C	13	57
Taipei	F	32	91
Tangier	T	26	79
Tel Aviv	S	27	[illegible]
Tenerife	S	27	[illegible]
Tokyo	C	22	[illegible]
Toronto	F	9	48
Tunis	F	[illegible]	[illegible]
Valencia	F	26	79
Venice	F	22	73
Vienna	F	16	61
Warsaw	C	11	52
Washington	F	17	[illegible]
Zurich	F	17	[illegible]

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

Monday September 17 1990

INSIDE

Results spell gloom for UK economy

Fears that the UK economy is moving into recession have been fuelled during recent weeks by a crop of worse-than-expected company results. And the stock market will inevitably feel the effects. Market strategists have found ammunition for their their views that earnings forecasts must be cut in the current climate. Maggie Urry reports. Page 22

Willis caught in a trap

Mr Roger Elliott (left) arrived back in London last week to what a colleague described as his "worst nightmare." The chairman of insurance broker Willis Faber found that the planned merger with Corroon and Black of the US was being challenged by an alternative, higher offer. The odds are that Willis will have to stump up a lot more cash if its deal is to survive, reports Richard Lapper. Page 22

An exercise in faith

Chile is on the brink of solving its debt problems. Today begins the final rescheduling exercise with creditor banks in New York. But the talks will not be easy. The Government is seeking fresh money to cover an expected balance of payments gap next year. "We have had nothing but praise . . . for the way we have . . . managed our external debt," says Eduardo Aninat, Chilean debt negotiator. "If they are not willing to lend to Chile, what hope is there for the rest of Latin America?" Page 23

Little acclaim for the matador

The Spanish matador bond market is reopening. Yet these peseta-denominated bonds issued by foreign borrowers in the Spanish market are not the draw they once were. Rising yields in Ecu and D-Mark bonds have lessened Spain's appeal as a high-yielding European bond market. Tracy Corrigan looks at the reasons behind the decline. Page 25

Market Statistics

Companies in this section

Pact with unions saves NY Post

By Janet Bush in New York

THE loss-making New York Post, the most sensational of the city's three fiercely competitive tabloids, appears to be stumbling back from the precipice of closure and hits the news stands today after a tentative weekend agreement with the paper's 10 unions.

The uneasy pact, reached after hours of negotiations in Manhattan's Sheraton Centre Hotel, is still contingent on the vote of the Newspaper Guild, which represents more than 350 journalists and workers in advertising and circulation. The guild has asked its members to vote on their part of the deal today.

Mr Barry Lipton, leader of the guild, said he and his negotiating team would recommend the agreement as the only way to save jobs. "It's the very best we could do. I hope that the sense of the membership is to swallow what may be a bitter pill."

Union leaders said that the guild proposal included a four-day working week which would mean a 20 per cent pay cut.

That would be a smaller concession than the Post's management was looking for last week when it threatened to close the paper. Mr Lipton said that the management had been demanding a 46 per cent cut in wages and benefits from guild members.

Mr Peter Kalikow, owner of the New York Post since 1988 when he bought the paper from Mr Rupert Murdoch, declined to estimate how many of the paper's 900 union jobs would be lost through the agreement but said that the settlement would include some union ownership of Post stock and a board seat.

Public figures have watched the negotiations with interest, concerned both about the possible death of a New York institution and about job losses in a depressed local economy.

Democratic Mayor David Dinkins sat in on the talks for an hour on Friday night, lending a hand despite the Post having been no friend to his party over the years.

And Cardinal O'Connor, the Roman Catholic Archbishop of New York, said late on Friday that he was "praying like mad."

Mayor David Dinkins: aided newspaper foe

Battle for the skies rages over Interflug

David Goodhart and Paul Betts examine the BA/Lufthansa fight for the E German airline

THE DEVELOPING dog-fight between Lufthansa and British Airways over control of the East German airline, Interflug, and BA's overall presence in the German market, is shaping up into a classic conflict between the rights of a national carrier and the principle of competition.

By the end of the year the conflict is likely to drag in the British and German governments and might become a test for Brussels' new competition rules.

It could get messy. Both airlines carry a lot of clout with their respective governments, and Bonn and London are not exactly the best of friends. Lufthansa is offering to buy a 26 per cent stake in Interflug, which would give it a blocking minority of the shares, while BA is keen to purchase up to 49 per cent of the East German airline.

The BA position in the German market has also been dependent on special rights inherited as a victor power in 1945 – which rankles with the Lufthansa chairman, Mr Heinz Ruhnau, and his equally nationalistic boss, Mr Friedrich Zimmermann, the Transport Minister.

The BA strategy is clear. It wants to hold onto as much of its Berlin/West Germany service as possible, despite the ending of Allied rights. For 40 years these banned Lufthansa from Berlin and limited the Berlin/West Germany service to British, French and American carriers.

More significantly, BA sees Berlin becoming the most important east-west business and transport hub in Europe, attracting as many as 20m passengers a year by the end of the century. It is therefore interested in developing, through a close association with Interflug, a significant European base out of Berlin similar to the one being developed in Brussels with KLM Royal Dutch Airlines and Sabena of Belgium.

Britain also argues that the single market will eventually introduce cabotage – the right of foreign carriers to run domestic flights – after 1993. It says that it is therefore perverse to abolish a little island of cabotage in 1991, even if the circumstances of its creation no longer apply.

The argument is really about take-off and landing slots. If BA leaves Berlin over the next three years, as the Bonn Transport Ministry proposes, it would not then be in a position to command the best take-off and landing slots after 1993.

The British side also claims that it has the best cost structure of any large airline in Europe. It says that when Berlin prices are liberalised, it will be able to offer a more competitive service than Lufthansa, with one of the worst cost structures in Europe.

Lufthansa will be allowed to fly to Berlin from October 28. Including the Pan Am service, which Lufthansa recently acquired for $150m, and its 49 per cent stake in the Air France Euro-Berlin service, it will take almost 60 per cent of the Berlin market. That, says the UK, should satisfy the German airline, especially as there will be new flights and destinations – mainly to East Germany – which BA will not compete on.

Lufthansa is not, however, satisfied. It argues that BA will have a unique advantage pre-1993 which Lufthansa does not enjoy in the UK's domestic market. The Bonn Transport Ministry also has a less liberal interpretation of Brussels' 1993 air transport liberalisation plans, and questions whether cabotage will be introduced in the EC that year.

Ruhnau: determined to get Lufthansa back into Berlin

For years, Mr Ruhnau's main ambition has been to get Lufthansa back into Berlin. He is understood to have approached BA three years ago to negotiate a deal to enable Lufthansa to serve Berlin. Instead, he clinched a deal with Air France by taking a large minority stake in the EuroBerlin airline 51 per cent-owned by the French carrier.

He also forged a wide-ranging co-operation pact with Air France which has worried EC competition officials and other international carriers; and, as Air France consolidated its hold on its own domestic market by taking control of UTA, the independent French long-haul carrier, and Air Inter, the domestic French airline, Lufthansa turned its sights on Interflug to consolidate its own position in the new, broader German market.

In the face of this growing Franco-German partnership, BA decided to have a crack of its own at Interflug and talks were initiated between the East German and British airlines. These were interrupted when Interflug, apparently under pressure from Lufthansa, claimed it could not provide BA with the necessary commercial information to help the UK carrier decide on taking a stake in the East German airline.

BA, however, made it clear that it was seriously interested in acquiring a stake of up to 49 per cent in Interflug. It also wanted to develop a close partnership with the East German airline somewhat similar to the Sabena World Airways partnership in Belgium. Aero Lloyd, a small West German charter airline, may be joining BA's initiative.

The West German Cartel Office in Berlin has expressed its concern about publicly-owned Lufthansa's domestic monopoly powers which would be enhanced by a takeover of Interflug. The East German Treuhand, the trust which owns the country's industry, has also expressed reservations about the Lufthansa offer.

The Cartel Office does not give a definitive opinion until the end of October. But if it rejects the Lufthansa offer to buy a 26 per cent stake, it could unleash a political storm, especially if BA should step in.

Public opinion in Germany would side with Lufthansa, which says it is merely reuniting what was once a single airline. One German business commentator has written that success for the BA plan would be contrary to the spirit of last year's peaceful revolution in East Germany.

Mr Ruhnau, a former Social Democrat state secretary in the Transport Ministry, would relish the conflict. He has an abiding contempt for the British political establishment and good contacts in his old ministry, which is sure to back him in a political fight. The Economics Ministry, theoretically the champion of competition, might prefer the BA option in principle, but would probably have to bow to political pressure and overturn the Cartel Office.

At that point, Brussels – in the guise of Briton Sir Leon Brittan, the EC's competition commissioner – might want to get involved. BA has already filed a formal complaint with the EC calling on the Commission to investigate Lufthansa's activities in Berlin and East Germany.

BA is the subject of a Commission investigation over its Sabena World Airways venture with KLM. However, it apparently believes it stands on firmer ground than its German rival since the UK Monopolies and Mergers Commission has cleared the Sabena venture while the German Cartel Office is objecting to the Lufthansa-Interflug deal.

But the struggle for Interflug and Berlin has only just begun. All the signs suggest that it will intensify in coming weeks and risks turning into a bitter Anglo-German political confrontation.

Britain sues BAe and Rover for £44m

By Kevin Done in London

THE BRITISH Government is suing British Aerospace and Rover to recover £44.4m ($83m) in state subsidies made illegally to the two companies at the time of BAe's controversial takeover of the UK car group in 1988.

The Department of Trade and Industry, which made the secret concessions to BAe and Rover, said the High Court had issued writs last week requiring BAe to pay back £42.9m and the Rover Group a further £1.5m.

The action has been forced on the Government by the ruling of the European Commission earlier this year that the secret financial concessions made to BAe amounted to illegal state aid.

The payments sought from BAe comprise:

- £33.4m calculated to be the benefit derived by BAe of deferring the £150m payment for Rover from August 1988 to the end of March this year;
- £9.5m paid as a contribution to BAe's costs in the takeover;
- and £1.5m paid as a grant to Rover to cover its costs incurred in the acquisition.

BAe is expected to take its own action in the High Court to try to delay the writs being put into effect, pending the outcome of its appeal to the European Court of Justice against the Commission's original ruling. It is expected to lodge an appeal with the European Court this week.

The DTI said: "The Commission's decision is valid until the European Court determines otherwise. The Government's obligations require us to abide by that decision, which is not prejudiced by any appeal against it."

The Government's embarrassment over the BAe/Rover affair will be prolonged by the continuing investigations of two powerful Commons select committees, the Public Accounts Committee and the Trade and Industry Committee. ...

The Conservative-dominated Trade and Industry Committee said earlier this summer that it was demanding further evidence after receiving a copy of a letter sent by the DTI to BAe at the time of the Rover sale.

The letter stated that the Government was obliged by its agreement with the European Commission not to offer further aid to Rover.

It then added: "This provision does not in any way constrain BAe in respect of its non-Rover Group businesses from seeking financial assistance from the Government . . . any such application would be sympathetically considered."

Economics Notebook

Confusion reigns on road to EMU

FOR YEARS the European Community has worried about the possible emergence of a "two-speed" Europe.

At present, it seems to be confronted with a two-speed drive towards economic and monetary union (EMU).

This month's meetings of EC economics and finance ministers in Rome and central bank governors in Basle presented very different pictures of progress towards EMU.

The ministers' meeting nine days ago uncovered doubts and uncertainties that have thrown the EC Commission's hopes for a "fast track" move towards union into apparent disarray. By contrast, the central bankers, meeting in Basle last Tuesday, surprised themselves and many observers by completing most of the work on the statutes of the proposed European central bank which will be part of the final stage of EMU.

As the central bankers were also at the Rome meeting, there is reason to be confused about where EMU is going.

Before the summer it all seemed so simple. The debate was still very much influenced by the report of the Delors Committee, which set out a three-stage route to EMU in April 1989. Stage one began on July 1 with all EC members committed to its programme of joining the exchange rate mechanism of the European Monetary System (EMS) and eliminating exchange controls. Stage one is open-ended, but all countries except Britain accept the goal of stage three with a single currency and central bank.

Now the politicians have disagreed about how to move ahead, after earlier generating impressive political momentum behind the Delors Committee's plans. The technicians – represented by the central bank governors – have apparently shed past reservations about EMU and now seem united in support of a constitution for the key institution in an eventual union.

The agreement among the central bankers is impressive. After the Basle meeting, Mr Karl Otto Pöhl, the Bundesbank president who also chairs the EC central bank governors' committee, said there was accord on "practically all basic points" about the bank.

The governors agreed that the bank should make price stability its first priority, be independent from individual governments and also refrain from monetary financing of budget deficits. The European Central Bank – the governors rejected the title Eurofed – would have a leadership structure similar to that of the Bundesbank, with a central executive board and a council on which all the EC central bank governors would be represented.

Some difficult problems remain, including the size of the bank's capital, how this should be distributed among the central banks and how far foreign exchange reserves should be pooled. But Mr Pöhl and other EC central bankers appeared confident last week that the statutes could be completed in November for the December intergovernmental conference on EMU in Rome.

The recent ministerial meeting in Rome, by contrast, witnessed disarray over the timing of progress to EMU. Only France, Italy, Belgium and Denmark gave wholehearted backing to Mr Jacques Delors, the president of the EC Commission. He wanted to advance from the present first stage of EMU to stage two – which starts the institutional process of greater integration – at the beginning of 1993, and to stage three with its common currency and central bank soon after.

Mr Pöhl, influenced by Germany's difficult experience with monetary union, voiced his concerns about early institutional changes to Europe's monetary system in a speech in Munich before the Rome meeting. Spain put forward an alternative to Mr Delors' fast track plan in Rome, that envisages moving to stage two at the beginning of 1994. Stage two would then last for an extended period of five or six years to enable EC economies to converge before EMU's third and final stage.

Ministers ran into difficulties as they faced the political problems of ceding control over their economies in any move to the institutional phase of EMU

An official from one of the "fast track" countries last week described the Rome meeting as a "disaster."

The UK delegation was seen to be in high spirits as these differences emerged. It was particularly buoyed by the decision of Mr Carlos Solchaga, the Spanish Finance Minister, to incorporate aspects of British plans for a "hard Ecu" parallel currency and a European Monetary Fund into his stage two proposals. However, Mr John Major, the UK Chancellor, would be well advised not to pitch his hopes too high: none of Britain's EC partners have bought the hard Ecu as an alternative to a single currency or central bank.

As important as the timing problem was the total confusion that reigned over the content of any move beyond the present stage one of EMU.

Stage two, which would prepare the way to the single currency and central bank, was only vaguely outlined in the original Delors Committee report. Mr Delors' later fast track idea was an attempt to skate over this deficiency. One irony is that the British hard Ecu plan is the most clearly formulated proposal for the contents of stage two.

The ministers ran into difficulties last week as they came up against the highly political problems of ceding control over their economies in any move to the institutional phase of EMU. The central bankers were operating on a more theoretical plane, drawing up plans for a world in which EMU would be a political fact of life. They made the most of their freedom from daily political pressures to draft statutes that give the bank as much independence as the Bundesbank.

The travails of the ministers are the more significant indicator of where progress towards EMU stands. The past week's events have greatly increased the importance of a special meeting of EC leaders that will be held in October to discuss EMU.

There, the key role will probably fall to Mr Helmut Kohl, the German Chancellor. His choice will be between backing Mr Pöhl, the defender of the D-Mark with whom his relations have often been cool, and Mr Delors, who is much more to Mr Kohl's liking, but whose fast track plans for EMU could pose risks for the German economy.

Peter Norman

The economic diary can be found in section one. Page 15

Institutional investors gloomy over UK economy

By Peter Martin, Financial Editor, in London

INSTITUTIONAL investors in the UK are much more pessimistic about the economic outlook than before the Gulf crisis, according to a recent survey. On balance, however, they intend to continue adding to their holdings of UK shares.

The survey – covering 90 investors handling funds worth £310bn ($583bn) – was carried out last week by Gallup for Smith New Court, the investment house.

In July, 70 per cent of investors surveyed expected the UK economic situation to get better during the next 12 months. In September, 69 per cent expected the outlook to stay the same or worsen.

Fund managers have grown steadily gloomier about the outlook for dividend and earnings growth. In July, they expected UK earnings per share to grow by 4.5 per cent in 1990. By September, the figure had dropped to 3.1 per cent. The outlook for 1991 had also worsened, from 5.1 per cent to 3.4 per cent.

Despite the pessimism about the UK economy, more investors, on balance, expect to raise holdings of UK equities than of any other asset.

On balance, investors expect the FT-SE index to rise during the next three months, while they expect the Dow-Jones Industrial Average and the Nikkei index to fall. An overwhelming majority of investors surveyed expect the FT-SE to rise on a 12-month view.

At present, the investors surveyed have just over half their assets in UK equities with a fifth in overseas equities and the rest in property, gilts and cash.

continued on next page

Gloomier outlook forecast after interim setbacks

By Maggie Urry

A GLOOMIER outlook for the UK stock market is being predicted by brokers following worse than expected results from companies recently reporting half-year profits. These have fuelled fears that the British economy is moving into recession.

A heavy crop of interim results over the last couple of weeks has reinforced market strategists' views that company earnings forecasts need to be cut.

Reductions in estimates are being made across the board, not only for 1990 but for 1991 as well.

Market watchers point in particular to BTR's results last week, which showed a rise in pre-tax profits of 6.6 per cent to £530m, much smaller than analysts had expected. One said: "that is being taken as indicative of the widespread problems which lesser companies are facing."

Mr Bob Semple, market strategist at County NatWest WoodMac, said: "you cannot be as optimistic about the market as you were a month ago."

Last week analysts slashed forecasts for ICI – which reported a fall in first-half profits in July – and BTR. As leading industrial groups they are regarded as representative of economic activity.

Mr Semple said that the downgradings of ICI and BTR at his firm were "chunky revisions". Forecasts for both have been cut by hundreds of millions of pounds.

Investors are particularly looking at the dividends companies are paying. Mr Simon Clegg, managing director of UK research at Hoare Govett, is looking for dividends to rise faster than earnings, as some companies maintain or even increase payouts even where earnings have fallen.

In the past companies have tried to please investors with dividend increases because of the fear of being taken over. That motivation had gone, Mr Semple believed.

However, the stock market is still rewarding companies, which raise their dividends, with higher share prices. BTR last week increased its interim by slightly less than the rise in earnings per share it achieved and saw its shares fall. By contrast, P&O, the shipping, construction and service group, increased its interim despite a fall in earnings and its shares went up in response.

Mr Christopher Bull, BTR finance director, said that the group aims to keep its dividend cover at between 2.4 and 2.5 times. He said BTR increases its dividend in line with the rise in earnings per share, rounding up or down to the nearest 0.1p.

ICI maintained its dividend in July, and since then its shares have fallen 25 per cent, a larger drop than for the market as a whole. Higher oil prices as a result of the Gulf crisis have an especially severe impact on chemical groups.

FT Stock Indices on Page 31

Mr Philip Rogerson, ICI's general manager, finance, said the group had no regrets about not increasing the interim dividend. He said that the group looked at the total annual dividend, rather than the interim in isolation.

P & O said that its dividend increase reflected its view of the medium and long-term outlook.

Turkish group is leading bidder for B&C Merchant Bank

By Richard Waters

A TURKISH industrial group has emerged as the leading bidder for British & Commonwealth Merchant Bank, the subsidiary of the B&C financial services group which collapsed earlier this year.

Çukurova Group, a diversified conglomerate with interests in banking, textiles, the motor industry, machinery and contracting services, made the highest offer among several received for the bank when the deadline for bids passed ten days ago.

A sale would mean an early end to the difficulties of BCMB's many private depositors, whose money has been frozen since the bank went into administration earlier this year.

Bank of England approval for a Çukurova bid may be difficult to obtain, however. As long ago as November 1987 Mr Robin Leigh-Pemberton, governor of the Bank, made it clear that the Bank was wary of allowing non-banking groups to own UK banks.

The experience of BCMB itself, which suffered a liquidity crisis because of problems in a non-banking part of the B&C group, is likely to have reinforced the Bank's views.

Further doubts about Çukurova's suitability as a parent will be prompted by the experience of two of its three Turkish banking subsidiaries. Yapi ve Kredi, which had 598 branches at the end of last year, suffered problems in the mid-1980s, and despite a recovery, managed a return on assets of less than one per cent last year. Pamukbank is also thought to have been in difficulties in the last few years.

If the Çukurova bid fails, it seems likely that BCMB will face liquidation. Other bids for the bank are understood to have been low, reflecting the fact that the bank's goodwill has been wiped out by the administration, and that any bidder will have to provide considerable liquidity to support the bank if, as expected, there is an outflow of deposits once the shutters are raised.

Latest information from BCMB indicates a healthy surplus.

LAST WEEK'S BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Ecolab (US)/ Henkel (W Ger)	Düsseldorf joint venture	Cleaning & chemicals	£100m + shares	Ecolab also buying Henkel non-Europe ints
Barclays Bank (UK)/ Hertie (W Ger)	Credit card jv	Financial services	N/A	Barclays Ger push continues
Asahi (Japan)	Elders IXL (Australia)	Brewing	£420m	Cash inject for Elliott Harlin
Brook Opportunities (UK)	Manpower UK subs	Employment agencies	£106m	Manpower goes pre-1987 shape
Federal-Mgn (US)	Glyco (W Germany)	Bearings manufacture	N/A	FM has 60% and wants 100%
Ifil (Italy)	Pechelbronn (France)	Holding co	£120m	Agnelli vehicle buys 7%
Bullie Mining (UK)	VAM & Perseverance (both Australia)	Gold mining	£31m	Attempt to form mid-sized group
Fidenza Vetraria (Italy)	Holophane (France)	Pressed-glass products	£21.7m + dividend	Sale by Thorn-EMI (UK)
Asea Brown Boveri (Sweden-Switzerland)	Cincinnati Milacron robot business (US)	Robotics manufacture	N/A	Subject to US govt approval
Iveco (Italy)	Enasa (Spain)	Truck & bus manufacture	N/A	Surprise: Iveco beats Daimler

Source: FT Mergers & Acquisitions International

Surprises punctuated the week, writes Brian Bollen. Biggest was the A$960m purchase by Japanese brewer Asahi of 19.9 per cent of Australian conglomerate Elders IXL, owner of Foster's amber nectar and Courage in the UK. The sale by embattled beer and pub entrepreneur John Elliott's private vehicle Harlin Holdings - at a huge 38 per cent premium - marks the first significant international expansion by a Japanese brewer. By at least postponing cash flow problems, the injection of funds should also help reassure bankers worried about Harlin's debt servicing capability.

Milwaukee-based employment agency Manpower's agreement to sell five UK subsidiaries to a management team for £106m advanced its plans to revert to being a wholly US concern. Manpower will keep 15 per cent of the new unit, but has essentially now rid itself of the companies which comprised Blue Arrow before it bought Manpower in 1987.

Ifil, the Agnelli group of Italy's main investment vehicle, deepened its involvement in France and increased the overseas book value of its portfolio to a quarter of total investments by buying 7 per cent of Pechelbronn, the main holding company of Groupe Worms.

Differing views on the outlook for widespread use of robots in production lie behind ABB Robotics' proposed acquisition of the robotics business of Cincinnati Milacron.

Barclays Bank described its joint venture with retail store group Hertie as its most ambitious move yet into Germany's personal financial services sector.

Willis caught in a bear trap

Richard Lapper in London and **Nikki Tait** in New York on Roger Elliott's 'worst nightmare'

Mr Roger Elliott, chairman of Willis Faber, the world's fifth biggest insurance and reinsurance broker, finds himself between the proverbial rock and a hard place. He flew back from the annual get together of the world's reinsurance community in Monte Carlo last week to what one former business colleague described as his "worst nightmare".

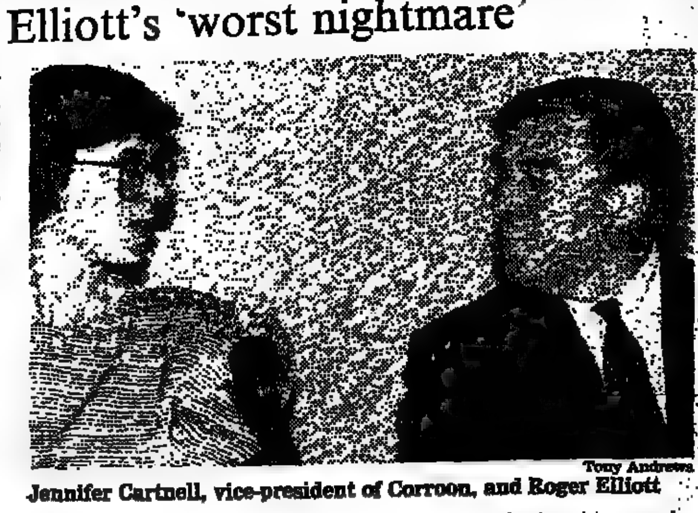
Three months ago Willis controversially ended its decades-old relationship with the world's fourth biggest insurance broker, Johnson & Higgins, in order to merge with one of J&H's most important US competitors, Corroon and Black. Last Wednesday, with documents listing the details of the proposed Willis Corroon merger in the public domain and the deal at its most vulnerable stage, Mr Elliott found himself potentially gazumped by one of the toughest men in US insurance, Mr Patrick Ryan, head of Aon Corporation.

Mr Ryan, a self-made man, owns a 13 per cent stake in Aon's insurance holding group, worth over $300m (£161m) and has among other interests a 20 per cent stake in the Chicago Bears American Football team.

Mr Ryan has said that he is prepared to offer $40 a share for Corroon, nearly a third more than is proposed in Willis' all-paper offer, which would have given the London broker a 60:40 majority in the new company. Corroon's senior management is reported to be unenthusiastic about the Aon approach, which, if consummated, would link it to Aon's broking subsidiary, Rollins Burdick Hunter, creating a giant all-American partership.

But the Corroon board may be hard-pressed to reject the offer and the odds are that Willis will have to stump up a lot more cash if its deal is to survive. One prominent London broker summed it up by saying: "Willis is in a corner. Either they shrink into their shell or come out fighting."

In the intensely competitive world of international reinsurance broking Willis, one of the most prestigious of Lloyd's brokers, risks finding itself bereft of a solid and reliable US con-



Tony Andrews

Jennifer Cartnell, vice-president of Corroon, and Roger Elliott

nection at a time when the world's big three – Marsh McLellan, Alexander and Alexander and Sedgwick Group – are pressing ahead with a genuinely international broking presence.

All three groups are the result of mergers in the 1970s and early 1980s between US retail brokers (brokers handling corporate and other commercial insurance accounts with direct insurers) and London-based brokers that have historically specialised in placing reinsurance, as well as marine and aviation insurance, in the Lloyd's and London market.

The rationale for these moves was the fact that, while over 50 per cent of the world's insurance premiums originated from the sophisticated US market, London has traditionally been the centre of the international reinsurance market.

In the late 1980s all these leading transatlantic groups began to establish international operations, with branches in Europe and the Far East directly under their control. The combination of centralised control and increasingly sophisticated technology and information systems provided the basis for the development of what analysts are labelling "mega brokers," which serve the insurance and risk financing needs of international companies that have themselves become more and more globalised.

Insurance analysts believe that, once established, these mega brokers will tend to outpace their erstwhile rivals, who will be forced to fall back on specialist niches. A merger with Corroon would have made Willis Corroon number four in the world and given it the chance of developing its international presence elsewhere to compete as a mega broker.

If the merger fails, the "mega broker option is dead", suggests analyst Tom Bennett, an analyst with Banque Paribas Capital Markets. Willis's problem has not been an absence of international links. In fact, Willis was one of the first of the London brokers to develop US connections. Willis initially obtained agreement from the New York broker Johnson & Higgins to handle all business placed in the London market in the 1980s.

Thereafter, four successive Willis chairmen tried to press J&H into a closer relationship, only to be rebuffed by the US company's desire to remain private. Hence the eventual jettisoning of J&H in favour of the Corroon & Black merger. The deal, originally agreed in early June, was welcomed by both parties. Ms Jennifer Cartnell, first vice-president of Corroon, described the deal as "strategically brilliant."

But although Corroon's management might prefer a link to Willis, the group's shareholders might not necessarily agree. Aon is a rapidly growing group of considerable potential. Mr Patrick Ryan, its chairman, started his business career by setting up a one-man concern selling extended warranty insurance covers to motor dealers in the mid-west.

In 1982 Ryan acquired Combined Insurance, a health accident and life insurer. Combined had been founded about half a century earlier by W. Clement Stone, a colourful character, now in his eighties, well known in the US as a proponent of "Positive Mental Attitude", a homespun management philosophy, which counts former President Nixon among its adherents.

The group grew rapidly, basing its strategy on targeting relatively small companies in cities of 50,000 or less or suburban areas, and with companies' permission separately selling life and health policies to their employees. Its distribution network depends on a large door-to-door sales force. Since 1982 Aon has made a series of acquisitions, including the direct insurance brokers, Rollins Burdick Hunter Group, which in turn acquired the sizeable Bayly, Martin & Fay brokerage business in mid-1989 and Martin Boyer Company this year.

By 1989 Aon's total assets amounted to $9.3bn, when it posted profits of $232.4m. International operations, principally in the UK and Japan, generated $289m of revenues in 1989. Also among Aon's overseas interests is a 40% stake in the London broker Nicholson Chamberlain Colls, a reinsurance broker formed in March 1988.

In London Nicholson Chamberlain Colls would be the most obvious beneficiary of an Aon takeover of Corroon & Black, a fact that would be particularly galling for Willis, since several of the Nicholson group's founders were former employees of Stewart Wrightson, a broking business acquired by Willis in 1987.

CONTRACTS & TENDERS

COMPANIES AND FINANCE

Maxwell in E German publishing venture

By David Goodhart in Bonn

MR Robert Maxwell, the British publisher, and Bertelsmann, the big West German media group, have paid between DM250m ($160m) and DM300m for 100 per cent of East Germany's largest and potentially most profitable publishing group, Berliner Verlag.

Berliner Verlag, which publishes and prints the largest selling newspaper in Berlin and several other papers and magazines, is owned by the PDS, the former East German Communist Party. The proceeds from the sale will be controlled by a commission which is examining the property of the former official parties.

Gruner und Jahr, the Bertelsmann subsidiary involved in the deal, and the Maxwell Group will each take 50 per cent.

Gruner und Jahr will provide most of the management and Mr Maxwell will become chairman of the supervisory board.

Mr Gerd Schulte-Hillen, a Bertelsmann board member, said it was possible that Berliner Zeitung, the Verlag's main newspaper, could be developed into a German national paper, something which Bertelsmann does not own.

Bertelsmann has already launched regional tabloids in Dresden and Chemnitz in East Germany and produced an edition of its Hamburger Morgenpost for the Mecklenburg-Vorpommern region.

Chile banks on clearing its debts

Leslie Crawford reports on the country's test of lenders' confidence

When Mr Eduardo Aninat, Chile's chief debt negotiator, sits down with creditor banks in New York today, he hopes he will be conducting the country's last rescheduling exercise.

If the negotiations are successful, Chile's debt problems will be over. Its relations with the international financial community will return to normal and it could become the first country in Latin America to regain access to voluntary lending markets since the debt crisis struck in 1982.

Chile's pioneer use of debt reduction mechanisms such as debt-to-equity swaps has halved its commercial bank debt since 1985 to $6.9bn. But it faces a bunching of maturities that will more than double its amortisation bill to $1.8bn a year from 1991 to 1994.

Two thirds of these payments are non-reprogrammable obligations with creditor governments and multilateral institutions. So the only way to lighten the burden will be to reschedule the slice owed to commercial banks – $1.9bn during the next four years.

According to Mr Aninat, this will be the least controversial aspect of the debt talks. For Chile is also seeking a comprehensive financial package that will allow the country to plan its long-term development.

A crucial element in this deal, says Mr Aninat, is to get "real fresh money" from the banks to cover an expected balance of payments gap next year and free other resources for investment. Mr Aninat would not reveal the size of this shortfall, but private economists say it is about $200m to $300m.

Mr Aninat sees the materialisation of fresh credits as the test of bankers' confidence in Chile. "We have had nothing but praise from the banks for the way we have restructured our economy and managed our external debt," he said. "If they are not willing to lend to Chile, what hope is there for the rest of Latin America?"

Mr Aninat's predecessor, Mr Hernan Somerville, believes that commercial bank loans will begin to flow into Chile again not as a reward for the country's good servicing record, but because it is good business.

Chile has one of the highest growth rates and lowest inflation rates in Latin America. Foreign investment is pouring in at $100m a month. In addition, Chile completed an exemplary transition from dictatorship to democracy in March.

Mr Aninat does not want to force commercial banks into lending the new money. This would not help Chile on the road to the voluntary credit markets. What he envisages is a "semi-voluntary" club deal, put together by 20 to 25 banks which have a long-term interest in Chile.

This could be in the form of a syndicated loan, or the club could agree to buy medium-term bonds issued by the Chilean Government, the Central Bank or the state-run Banco del Estado.

Mr Aninat says the price of these bonds would be a barometer of the banks' real assessment of Chile's creditworthiness. The country's total foreign debt of $16.8bn equals 67 per cent of gross domestic product. Interest payments, which will total $1.5bn this year, consume less than 18 per cent of the country's exports. International reserves stand at a healthy $3bn. And by every other measure, Chile is no longer an over-indebted country.

The final item in Mr Aninat's shopping list is a bid to introduce more flexibility in the debt restructuring contracts signed since 1983. He believes that Chilean debtors, be they private or state companies, should be allowed to renegotiate their debt individually with their own creditor banks.

Pacific Dunlop profits up 14%

By Bruce Jacques in Sydney

PACIFIC Dunlop, the Melbourne-based international rubber goods group, has managed a solid profit for the year ended June despite directors' complaints of tough economic conditions.

Net earnings rose 14 per cent to A$300.5m (US$248m) from A$263.3m on a 12 per cent increase in sales to A$5.1bn from A$4.5bn. The annual dividend has been raised to 20 cents a share from 17 cents.

Sir Leslie Froggatt, chairman, described the results as "commendable in view of the current difficulties in the Australian economy and the uncertainty of the world economy."

Sir Leslie said the prime focus of the year was productivity improvement. "Funds generated exceeded A$630m before tax compared with A$517m in the previous year," he said.

"Gearing reduced from 61.1 per cent to 46.5 per cent, and net borrowings were A$87m lower. This was achieved notwithstanding the expenditure of $311m on new business growth during the year, comprising A$77m on acquisitions and A$234m in capital expenditure."

The divisional breakdown revealed a generally even performance. The result followed a 15 per cent increase in the group's net interest bill from A$46.7m to A$53.9m.

Depreciation took A$126.7m against A$102.4m and tax A$99.7m compared with A$108.4m. The result excluded a A$104.2m extraordinary loss against a A$402.9m loss previously.

Merger of exchanges faces delay

By Beverly Chandler in Montreux

THE proposed merger of London's main financial derivatives exchanges, scheduled for the end of the year, looks likely to suffer delays.

Futures and options industry officials, attending last week's meeting in Montreux of the Swiss Commodities Futures and Options Association, believe a merger before March next year would be impossible.

But given the work to be done in bringing the London Traded Options Market and the London International Financial Futures Exchange together, the delays are likely to be longer.

The main issue appears to be the distribution of new shares in the exchange, but agreement has yet to be reached on issues such as clearing, membership rights and trading procedures. The Bank of England working party, which recommended the merger, is now seen as having set too ambitious a timetable.

In another development, the London Traded Options Market has received clearance from the US Securities and Exchange Commission to market options to a restricted number of clients in the US.

A letter from the SEC allows members of the International Stock Exchange and LTOM to sell to "qualified investors" in the US. These are defined as institutions with at least $100m in assets or funds under management, or SEC registered broker-dealers with $10m in assets. The ISE is the first non-North American exchange to receive such clearance.

Ms Mary Schapiro, an SEC commissioner, said the letter was an indication of an effort by the SEC to be accommodating to foreign markets while ensuring that US participants' interests were safeguarded.

● The European Managed Futures Association, which groups sponsors of managed futures funds and other futures market operators, was launched in Montreux. It aims to lobby regulatory authorities in Europe on the role of futures and to educate fund managers on the use of derivative products.

● The Securities and Exchange Commission said it wanted accountants to require banks and thrifts to value their debt securities at market price in what would be a shift in financial reporting methods, Reuter reports.

At present, financial institutions can value debt issues held for investment purposes at cost. Mr Richard Breeden, SEC chairman, said this accounting method could grossly distort the true picture of banks' and thrifts' financial health. Market-based accounting could "help avoid the type of problems faced by thrifts," he said.

Chairman of Spurs sacked

TOTTENHAM Hotspur will today begin the urgent search for new financial advisers, brokers and a permanent chairman for the football club after a stormy board meeting on Friday night, writes Richard Waters in London.

Mr Paul Bobroff, chairman, was sacked by the four other directors after he refused to stand aside. Barclays de Zoete Wedd, its financial adviser, and de Zoete & Bevan, its broker, resigned immediately.

Mr Robert Maxwell, the publisher, had said his £13m cash injection depended on directors presenting a united front.

Provigo ahead 19% in quarter

PROVIGO, Canada's second largest food distributor, achieved a 19 per cent earnings gain in the second quarter on an 8 per cent increase in sales, writes Robert Gibbens in Montreal.

For the 16 weeks ended August 11, profit was C$18.4m (US$15.8m) or 22 cents a share, up from C$15.4m or 18 cents a year earlier, on sales of C$2bn against C$1.9bn.

First-half profit was C$29m or 34 cents a share, up 13 per cent from a year earlier. Sales were up 6 per cent to C$3.4bn.

UAL buy-out team ends pact with investors' group

By Alan Friedman in New York

THE EMPLOYEE group trying to stage a $4.36bn buy-out of UAL, the parent company of United Airlines, has terminated its formal pact with Condor Partners, a group of investors led by Coniston Partners, which holds an 11.8 per cent stake in UAL.

However, the end of the pact, "in light of current market conditions," according to a filing with the Securities and Exchange Commission (SEC), appears to be more of a tactical manoeuvre than a definitive ending of the UAL bid.

The end of the pact will allow the buy-out group to revise its bid without having to make immediate disclosure to the SEC. It is thought the group may reduce its offer of $155 in cash plus $46 in securities.

The pact was agreed last April between the United Employee Acquisition Corp (UEAC) and Condor Partners. At the time UAL stock was trading at $165, less than the $155 of cash plus $46 of paper offered in the $4.36bn bid. On Friday UAL's stock stood at $99.

The deadline for the bid had been extended by the UAL board on August 9 for 60 days to give the partners more time to obtain financial backing.

In May Mr Gerald Greenwald, formerly the vice chairman of Chrysler, agreed to become chairman of UAL if the employee group succeeded in taking over the airline.

Mr Greenwald received a $5m fee for signing on.

He is also promised a $1.2m yearly salary for five years if the buy-out succeeds and a 1.5 per cent equity stake in UAL. If the buy-out fails, he is guaranteed a $4m fee, in addition to the $5m he has already received.

OTTOMAN BANK

Interim Statement

The group result after tax attributable to shareholders for the six months ended 30 June 1990 was a loss of £866,000 (£7,708,000 profit). This result, which has not been audited, is equivalent to a loss per share of £1.73 (£15.42 profit).

£000s	1990	1989
Turkey	2,168	3,316
Translation loss on capital	(3,316)	(382)
Turkey Net	(1,148)	2,934
Outside Turkey	282	4,774
	(866)	7,708

In Turkey, the interest earnings of our banking business increased substantially compared with the same period last year. Commissions showed little change whilst costs continue to increase in line with the high rate of inflation. The trading result for the half year was better than that for the corresponding period last year, when most of the profit resulted from the sale of properties. No such sales took place this year. Unfortunately, the depreciation of the Turkish lira against sterling accelerated in 1990, and led to the loss on our capital funds in Turkey shown above.

A recent improvement in the interest rate structure and a rise in commission earnings present a more encouraging picture and indicate that improved trading results can be expected for the Bank in Turkey during the rest of the year. The profit for the whole year expressed in local currency should exceed that of last year. It is probable, however, that the Lira will continue to depreciate substantially throughout the year and the net result expressed in sterling for 1990 is expected to be lower than that of 1989.

Outside Turkey the half year results of our investment activities were not satisfactory. Higher returns on the group's bond holdings were negated by capital losses and by exchange losses due to the strength of sterling. The fall in markets, particularly in the Far East, resulted in losses on the equity protfolio. Despite the considerably increased liquidity in the group's investment portfolios during July and the improvement in the business in Turkey, it is expected that the group results for the full year will be considerably lower than those for last year.

As in previous years, no interim dividend is to be paid.

14 September 1990

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	Northern Bank Ltd	15
Adam & Company	15	Cyprus Popular Bk	15	Nykredit Mortgage Bank	15½
Allied Trust Bank	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
Allied Irish Bank	15	Duncan Lawrie	15	R. Raphael & Sons	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe Bank Ltd.	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	McDonnell Douglas Bnk	15		
City Merchants Bank	15	Meghraj Bank Ltd	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. of London Plc	15	Mount Banking	15		
Co-operative Bank	*15	Nat Bk. of Kuwait	15		
		NatWestminster	15		

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continued on next page

INTERNATIONAL CAPITAL MARKETS

JAPANESE BONDS

Institutions leave market listless

THE determination of Japanese institutions to freshen up their accounts before the closing of the fiscal first half has left an unfavourable government bond market listless.

With interest rates rising and unrealised losses on bonds accumulating, the market has been a source of frustration to Japanese institutions this year.

But there are hopes that the prospect of better returns in the second half will lift the market late in the week, when delivery dates stretch into the second half.

The yield on the benchmark No 119 10-year bond rose from 8.34 per cent to 8.475 per cent during trading on Friday, and trading this week will test analysts' predictions that 8.5 per cent is the upper limit of the bond's yield.

Institutions' continued lack of interest in buying on the local market contrasts sharply with the commercial banks' rush to issue subordinated bonds on the Euromarket as part of their campaign to boost sagging capital adequacy ratios before the end of September.

Market players sense that institutions have been repatriating funds from sales of foreign securities in the past couple of weeks to bolster the books, and that some of that money could flow into the local bond market this week.

The yen's appreciation, welcomed by the Bank of Japan, is a lure, while the central bank's more relaxed monetary policy has taken the heat out of fears of a further increase in the official discount rate, which was raised 0.75 per cent to 6 per cent two weeks ago.

But the yen's strength has raised doubts about the relative wisdom of investing in US Treasury bonds, which had only a 50 basis points bonus on the benchmark bonds for a potentially serious currency risk.

Mr Marshall Gittler, bond market analyst at UBS Phillips & Drew, said that this week could be a turning point for the government bond market. "There may be some selling as soon as the new settlement date begins, and then buying could start."

Another analyst said that the market "is a bit sick," but that "8.5 per cent is probably as low as the benchmark bond will go."

He suggested that "buying could begin at the end of the week because [investors] will be buying into the next period," but that the strength of short-term interest rates could mean that the market remained listless.

The question of latent bond losses has become more sensitive, with the Ministry of Finance reported as planning to require banks to disclose their unrealised profits or losses.

Unfavourable market conditions have meant that the city or larger commercial banks have accumulated latent bond losses estimated at more than Y3,000bn, although they are now required to report only the amount of latent profits or losses written off on their holdings of listed government bonds.

The country's 132 regional banks have also become wary of the bond market, particularly the 11 banks which will enter the bonds at market value in their interim accounts and take the brunt of the losses.

One analyst said that, with the closing of the accounting half, some repatriated funds could return to foreign bond markets. He thought that Japanese investors had become cautious about the US currency, but were more optimistic about European currencies – in particular, the French franc.

"If I was a Japanese investor, I would probably buy Japanese government bonds. I would not be surprised if there was a rally in these bonds at the end of the week," he said.

Robert Thomson

NRI TOKYO BOND INDEX

December 1983 = 100	13/9/90	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	141.12	8.46	141.91	146.25	142.04
Government Bonds	137.46	8.44	138.08	144.07	139.74
Municipal Bonds	142.65	8.41	143.74	148.43	143.81
Govt.-guaranteed Bonds	145.94	8.45	147.61	150.72	146.08
Bank Debentures	140.27	8.54	140.91	143.27	139.07
Corporate Bonds	144.83	8.32	146.41	148.73	146.77
Yen-denom. Foreign Bonds	149.75	8.67	152.00	154.18	151.70
Government 10-year†	7.74	–	7.67	6.64	6.97

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Analysts trim their Christmas present lists

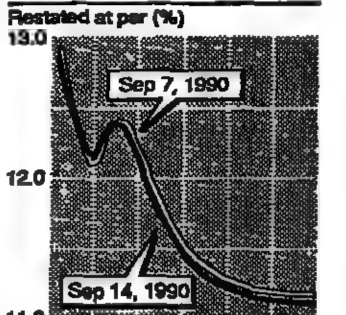
MOST analysts in the gilt-edged securities market have already pencilled in their requirements for what would be a bumper Christmas present. They would like Mr John Major, the UK Chancellor, to throw his normal caution to the winds and cut interest rates.

But the chances of him doing so in time for the analysts' Christmas dinners have dimmed in the past few days. That explains why the gilt market closed on Friday only slightly firmer than at the beginning of the week, with prices for many gilts showing only small gains.

The Treasury 9 per cent 2008 security, a benchmark stock for the gilt market, was a case in point. It showed a yield on Friday of 11.17 per cent as opposed to 11.28 per cent on Monday, indicating a tiny price increase.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Expectations of a cut in interest rates, which would tempt more financial institutions to put funds into gilts, have risen in the past few weeks. That has largely led from the feeling that the Government is now set on joining the exchange rate mechanism (ERM) of the European Monetary System, a move which many expect to be accompanied by a reduction in rates.

Two sets of economic indicators last week caused financial observers to blow hot and cold on the interest rate question. First, a higher than expected rise in UK unemployment indicated that demand pressures in the economy were easing faster than many had thought.

That was taken to mean that the inflationary spiral in the UK might be on the point of petering out. There was bullish comment on the likelihood of an interest rate cut.

But on Friday the Government announced that retail price inflation in the UK had climbed to an annual rate of 10.6 per cent last month, a rise much bigger than expected.

This sent out a strong sign that inflation was far from being under control and dampened speculation about interest-rate changes.

So where does this leave Mr Major? Many believe that psychological factors will increasingly enter the picture. The Government may be less inclined to join the ERM while the world wrestles with the crisis in the Gulf.

And there is a possibility of West Germany raising its interest rates in the next few weeks, partly to dampen down inflationary pressures that may emerge in the aftermath of reunification.

If the Germans put up rates, the UK might not want to be seen to be moving the other way. All this is a recipe for inaction, which could well mean long faces in the gilt market in the next few months.

Peter Marsh

US MONEY AND CREDIT

Worries emerge on health of banks

THE experience of Chase Manhattan last week demonstrated what negative investor perceptions can do to borrowing costs. White House and Congressional negotiators, who have been locking horns over a package of cuts to the budget deficit which most independent agencies still think will be woefully inadequate, should take note.

Commercial bank paper took a beating after Chase was forced to reset the rate on $200m of auction-rate subordinated notes to yield 13.017 per cent, up from the previous rate of 9.66 per cent.

This was the most dramatic sign so far that investors are worried about the health of the banking industry, which has seen a sharp increase in its non-performing loans and is likely to do worse in a recession.

In his testimony to the Senate Banking Committee last week, Federal Reserve chairman Mr Alan Greenspan acknowledged that there were "all too many problems with the banking system" and backed some increase in insurance premiums paid by US banks to the Federal Deposit Insurance Corporation, which insures bank deposits.

Mr Greenspan also made it clear that easier monetary policy would depend on a deficit-cutting package which the financial markets perceived as credible.

If the Chase example is anything to go by, the entire interest rate structure is being kept firm by concern about the ability of the US to pay its debts.

The General Accounting Office poured cold water on last week's gargantuan attempts to reach agreement on a package which would slice $500bn off the deficit by 1995, saying that a cut of more than $1,000bn was needed.

There may be a short-run bounce in the financial markets when an accord is finally reached but, if they agree with the General Accounting Office, it will not last.

There was another dose of medicine from elsewhere which held more worrying implications for the US fiscal position. The Ministry of Finance in Tokyo revealed that the Japanese were net sellers of US securities in the first half of this year to the tune of $8.9bn. This reverses the trend of the last decade, when Japanese investors were substantial net buyers of US stocks and bonds.

Private economists reiterated what is now fairly obvious. There is little incentive to buy US bonds given that the yen is strong, the dollar is weak and the interest rate spread between equivalent Japanese and US government bonds has narrowed to a sliver.

Given general expectations that the US economy is sliding into recession and Japanese interest rates will remain high, there seems little hope that US paper can return to popularity for the time being.

Overall, net purchases of US stocks and bonds by private investors abroad are only about one third of the 1989 level with purchases totalling only $9.4bn in the first half of 1990, the lowest level since the US dollar crisis period in late 1987.

The US current account deficit (and the budget shortfall) will of course be financed, but it is difficult to see where the funds will come from in this particular business cycle.

As the economy slips into recession, which many economists expect next year, domestic investors would normally be expected to take up any slack left by foreign purchasers of US paper.

In a recession, corporations cut back their borrowing and capital is freed for other uses. Banks, for example, which are no longer making loans, may choose instead to put excess funds to work in the US government bond market. Bond markets tend to do well in recessions, which squeeze out inflation and usually mean lower interest rates.

This theory may not hold this time for a very important reason. US investors are more aware than before of the opportunities afforded by investing abroad and are as likely, if not more so, to choose to put their savings in West German or Japanese government bonds.

Figures provided by Mr Nick Sargen, a director in Salomon Brothers' bond research department, show that in the second quarter, US investors bought a record $10.9bn of foreign stocks and bonds, a trend which is likely to intensify. At the end of 1989, US investors held only about $100bn in foreign securities, or less than 2 per cent of international bonds outstanding.

Mr Sargen points out that private long-term US capital outflows in the first half of 1990 exceeded the capital inflows. "If this pattern persists, it means that the US will have to attract short-term capital flows to cover the net long-term outflows as well as a current account deficit that will be boosted by higher oil prices," he said.

The implication of all this is that US bond yields will not fall as far as they would normally in a recession.

The current trend of capital flows makes talk of the US Federal Reserve easing look rather contradictory. One only needs to look at the effects Mr Greenspan's hints at easier money last week had on the dollar to see one of the problems. The Fed chairman made various remarks about lowering interest rates and the dollar fell to its lowest level for 18 months against the yen.

A weakening dollar makes US securities even less attractive to foreign investors and also provides an argument against lower US interest rates which would make the currency even more vulnerable. In addition, easier money in the US when monetary policy overseas is firm would cut the interest rate spread with foreign bonds even further.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds	7.75	7.94	8.00	9.92	7.94
Three-month Treasury bills	7.57	7.61	7.72	9.11	7.20
Six-month Treasury bills	7.63	7.71	7.82	9.37	7.18
Three-month prime CDs	8.02	7.96	8.10	10.95	7.65
30-day Commercial Paper	8.00	7.97	8.10	9.95	7.87
90-day Commercial Paper	7.80	7.82	8.00	10.05	7.78

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	99[illegible]	[illegible]	8.72	8.67	8.65
20-year Treasury	102[illegible]	[illegible]	9.05	8.96	8.97
30-year Treasury	97[illegible]	[illegible]	9.01	8.91	8.93

Money supply: In the week ended September 3, M1 rose $4.4bn to $820bn

The futures contain decreased security

Barbara Durr examines an industry which no longer makes fat profits

Although the burst of trading activity prompted by the Gulf crisis may delay it, the futures industry is poised for a round of consolidation.

Tougher competition, greater demands for capital, globalisation and technology are weeding out the industry. As profitable lines of business in financial services shrink, the drift toward fewer and larger specialised companies is expected to become a tidal wave.

During the last year, Donaldson, Lufkin & Jenrette, First Boston Corp and Continental Bank bailed out of futures trading, and Drexel Burnham Lambert, which had a significant and profitable futures unit, and the Stotler Group, collapsed.

Mr Leo Melamed, chief of the executive committee at the Chicago Mercantile Exchange, said the trend toward consolidation "is something I've seen for several years and it's getting bigger."

The fabulous success of financial futures since they were first introduced – by Mr Melamed – in 1972 drew many into trading. Initial profits were fat.

As futures became widely accepted as financial instruments, institutional use of the markets mushroomed and wrought changes in them.

Entrants to brokering and trading shifted from small, often mid-western entrepreneurs to big Wall Street investment banks and securities houses. The increased competition brought commission cutting.

From $30-$50 per trade in the 1970s, commissions now average at $9. And the resulting squeeze on profits has meant that brokerage profits during the last 10 years are estimated to have averaged only about 5 per cent – had companies simply invested in Treasury bills they would have made more money.

'The inefficiencies of the market are going toward zero, where no excess profits can be earned, and that means consolidation, where the lowest-cost producers will survive' – Mr Gary Ginter of Chicago Research & Trading Group

The lack of profitability has caused a re-examination of futures trading. "The business is tough and getting tougher," said Mr Tone Grant, president of Refco, the world's largest futures commission merchant. "You have to offer more for less."

Mr Grant, a former marine, runs his shop under the "lean and mean" motto. It has prospered by keeping business within strict execution and clearing services and by keeping costs at rock bottom. It does no proprietary trading and hooks big clients.

Commercial banks, which entered futures with the idea that they had to be "full service institutions," are thought to be prime candidates for withdrawal from futures trading. Although they will continue to use the markets, they could decide to pare away their in-house trading groups.

In that case, a brokerage such as Discount Corporation of New York Futures, which handles a lot of bank business, may be a big beneficiary. Pressures on small and mid-size firms to shore up capital, particularly following the Stotler collapse, are also expected to intensify and force realignments. Customer money will flow increasingly to what are perceived as safe havens: large companies with deep pockets, brokers say.

A division of labour in the futures markets between large moneyed firms and boutique firms with expertise is taking hold. Brokers see a recent rapid growth of "give up" business as evidence of this. Give-ups are when large trading houses send trades to small speciality firms for execution and forsake a portion of the commission.

The shake-down in futures is also being shaped by technology and globalisation. Now that computers can move information and money around the world within a few seconds, the market's complexity is deepened as the periods to obtain returns are shorter.

"The inefficiencies of the market are going toward zero, where no excess profits can be earned, and that means consolidation, where the lowest-cost producers will survive," said Mr Gary Ginter, executive vice president of Chicago Research & Trading Group (CRT).

The move to higher technology has pumped up costs, not only for the hardware but for high-priced expertise. Greater trading volumes are predicted to be inadequate as a way to cover these costs. And this leads some to believe that the era of commission cutting may be over.

Chicago introduced financial futures, but the greatest growth for the industry is now expected to come from abroad. During the first six months of this year, contract volume on US exchanges shrank 2.44 per cent, while in the first five months European contract volume rose 32 per cent over 1989 and Asian volume shot up 50.6 per cent, according to Futures Industry Association data.

In the globalisation process, American futures firms are facing stiffer competition to hold on to their home turf as foreigners pour into Chicago. At both main Chicago exchanges, a fresh crop of clearing corporation members from Japan has arrived and Europeans are entering joint ventures – Swiss Bank Corp's pending deal with O'Connor & Associates, and Austria's Creditanstalt-Bankverein's soon-to-be-wrapped-up deal with Rodman & Renshaw – and buying in, such as ED & F Man's recent purchase of GNP Commodities.

INTERNATIONAL CAPITAL MARKETS

LENDING

Saddam adds to woes in electricity funding

PUTTING together bank financing for Britain's soon-to-be-privatised electricity companies has proved a hard, hard slog. The Government will be hoping the privatisations go somewhat better.

Ever since Saddam Hussein sent his army into Kuwait, banks' already-evident worries about corporate lending have intensified. The extra difficulties of Japanese banks, facing capital adequacy problems because of the falling Tokyo stock market, have meant their capacity to lend abroad has been severely curtailed.

That banks are now demanding higher margins and tougher loan conditions is evident in the financings being raised. Some of the loans for the electricity companies would have probably struggled anyway, so tight was the pricing – but the Iraqi invasion produced so much turmoil that some were bound to suffer.

And suffer they have. Bankers at Barclays were smiling when they were awarded five of the dozen mandates going. Now at least two of the deals – the £350m credit for Seeboard and the £225m loan for SouthWestern – have gone poorly.

At National Westminster, there are glum faces over its two financings – the £750m standby loan for National Grid, the largest of the bunch, and a £350m credit for Southern.

Like all the loans, that for National Grid is underwritten, but, unless something changes rapidly, underwriters will be left holding far more than they bargained for because the response in syndication has been so weak.

NatWest is looking at the options, one of which is to raise the pricing on the deal, which carries an interest rate margin of 15 basis points. But it is far from clear if, in the current environment, enhancing the pricing will make much difference.

In some of the other deals, it is apparent too that the companies have been forced to offer "sweeteners" to some banks in the form of extra fees to encourage them into the transaction.

Some, at least on the face of it, appear to have gone reasonably well. Midland said it closed all three of its deals by the week before last.

Manufacturers Hanover has completed its £500m deal for East Midland with a 28-bank group, having sold down 50 per cent of the deal in syndication. This is a surprise, given that it carried the finest pricing and was the largest loan for any of the distribution companies.

It reflects elaborate advance preparation by the bank and company, and apparently tireless efforts by the company's treasury team. One Japanese bank in the final lending syndicate is reputed to have refused to join it three times.

Elsewhere in the UK, two new corporate financings emerged.

The Granada Group is raising £250m in a three-part credit arranged by Barclays and underwritten by it, along with Fuji, Manufacturers Hanover, NatWest and Société Générale.

A £200m credit is being raised through NatWest for British Land – a company with a strong reputation in an unpopular sector – with a 35 basis point margin.

The Granada financing is split into a £75m, 364-day revolving credit, extendible every six months, carrying a 7½ basis point commitment fee and a 20 basis point margin; a £50m three-year term loan which will be fully drawn at a 25 basis point margin; and a £125m five-year standby credit, with a 35 basis point margin and a commitment fee which declines from 15 basis points to 12½ as more is drawn down.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	916.2	0.0	605.0	14,182.6
Prev	428.0	0.0	15.0	15,381.5
Other	1,027.2	0.0	72.4	9,059.0
Prev	1,785.1	0.0	75.9	3,596.1
Secondary Market				
US$	15,526.4	540.0	3,962.7	7,540.7
Prev	14,194.9	698.6	3,105.8	7,334.1
Other	17,558.1	1,242.2	3,259.3	30,976.6
Prev	24,849.2	775.5	5,876.1	34,649.1

	Cedel	Euroclear	Total
US$	17,682.7	27,590.9	45,273.6
Prev	14,872.9	26,285.0	41,157.9
Other	25,025.1	38,189.7	63,214.8
Prev	30,780.6	40,826.4	71,607.0

Week to September 13, 1990 Source: AIBD

BONDS

Investors hesitate before taking on the latest matador

THE Spanish matador bond market is reopening following a two-month ban on issues. But the number of new financings during the last quarter of the year will be limited, according to a Spanish Treasury official.

Investors are no longer clamouring for matador bonds – peseta-denominated bonds issued by foreign borrowers in the Spanish market – as they were earlier in the summer.

Firstly, retail investors in particular have adopted a more cautious stance since the start of the Gulf crisis. Rising yields in Ecu and D-Mark bonds have lessened Spain's appeal as a high-yielding European bond market.

A keener blow for the bonds has been the persistent speculation that the Treasury planned to abolish or cut the 25 per cent withholding tax levied on Spanish corporate and Treasury bonds.

The matador market relies heavily on foreign demand, with little domestic support, observed Mr Alvero Pernas, head of fixed income sales at Banco Santander. Meanwhile, foreign investment in Spanish government bonds is increasing. It doubled last year to more than 6 per cent of the market, and has grown sharply this year to 15 per cent, as investors anticipate liberalisation of the withholding tax regime, according to recent research by J.P. Morgan.

The matador market was closed at the end of July, after the peseta had traded at the top of its range in the European monetary system for most of the month. The currency's strength was fuelled by foreign investment in peseta assets such as matador bonds.

The Treasury was able to use the closure of the market as an indirect means of controlling monetary conditions, taking the heat out of the currency, and so avoiding both a revaluation of the peseta and cuts in interest rates.

Since July, the peseta has fallen 2.5 per cent against the D-Mark, as the economic prospects for Spain, a net oil importer, were adversely affected by the Gulf crisis. Inflation, running at 6.5 per cent annually, is now expected to rise to 7 per cent by the end of the year, according to the Nomura Research Institute. The prospect of cuts in Spanish interest rates has been pushed back as a result, and is not expected until next year.

None of this bodes well for prospective issues, although the market has improved slightly during the past few weeks, after a dismal performance during the summer. According to Midland Montagu's composite matador index, yields peaked at 14.45 per cent at the end of March, then drifted steadily down to about 13.25 per cent at the end of July, when an extra spurt of buying by fund managers was sparked by expectations of lack of supply. Yields then jumped to 14.25 per cent a couple of weeks ago.

The matador bond market has consistently underperformed the Spanish Treasury bond market, although the spread between the markets has now returned to around 100 basis points.

Further, although some borrowers have been waiting to tap the market, swap market rates have shifted unfavourably, and the market may no longer offer sufficiently attractive funding opportunities.

The Republic of Austria, originally tabled to tap the matador market early this summer, would expect to achieve about 30 basis points below the London interbank offered rate by tapping the fixed-rate dollar sector, and would want to achieve better than this through a peseta financing. The potential five-year bond issue would be swapped ultimately into floating-rate D-Marks via floating dollars. But if rates were not sufficiently attractive, Austria would tap an alternative market, said Dr Helmut Eder at Ministry of Finance.

At one stage Austria was expected to become the first sovereign borrower to tap the market, previously restricted to supra-national agencies, but was overtaken by Denmark, apparently for political reasons – because Denmark is a European community member and Austria is not.

Further liberalisation could be on the way, as several government-guaranteed entities, including Electricité de France, are hoping to be allowed to tap the market for the first time.

Another borrower said to be in the queue, reportedly for a 10-year deal, is the European Investment Bank, one of the few issuers which has a need for pesetas (since it lends to Spanish borrowers) and so is not affected by swap market levels. But an official there said there were no concrete plans at this stage.

The lack of swap opportunities may be a severe setback in what has so far been a largely swap-driven market. The swap market is thin and illiquid, although opportunities can be hunted out.

"We have an active book where we warehouse swaps, but if the swap levels are not there, we can go and find a payer [of fixed-rate pesetas], very often a corporate with an entity in Spain," said Mr Tarek Mahmoud, vice president of Bankers Trust.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Uniden Corp.♦◆	120	1994	4	5	100	Nomura Int.	5.000
Kawasaki Steel Corp.♦◆	350	1994	4	5	100	Nomura Int.	5.000
Nippon Kinzoku Co.♦◆	70	1994	4	5⅜	100	Nikko Secs.	5.375
NEC Corporation♦◆	350	1994	4	4⅞	100	Daiwa Europe	4.875
Mitsubishi Bk(c)†◆	800	2000	10	(c)	100	Mitsubishi Fin.Int.	-
Cosmo Oil Co.♦◆	340	1994	4	4⅞	100	Nikko Secs.	4.875
Sumitomo Heavy Ind.♦	340	1994	4	(5⅛)	100	Daiwa Europe	-
ANZ Bking Group(e)◆◆	200	2002	12	(e)	100	Merill Lynch Int.	-
Daiwa Kosho Lease♦	180	1994	4	(5⅛)	100	Daiwa Europe	-
Caisse Nat.Cr.Agric.◆	120	1995	5	zero	70.495	Sanwa Int.	7.245
l'finance Cr.Nat.◆	90	1995	5	zero	70.495	Sanwa Int.	7.243
Credit Lyonnais◆	80	1995	5	zero	70.495	Sanwa Int.	7.243
World Bank(j)◆	2bn	1995	5	8⅝	99.54	D.B.Cap.Mkts/Sal.Bros.	[illegible]
Yasuda Tst.Asia Pac.(k)†◆	150	2000	10	(k)	101⅜	Salomon Bros.Int.	-
Izumi Co.♦◆	100	1994	4	5	100	Daiwa Europe	5.000
Nippon Paint Co.♦	160	1994	4	(5⅛)	100	Nikko Secs.	-
H'kkaido Takushoku Bk(o)†◆	200	2000	10	(o)	100	Yamaichi Int.	-
Tokai Bk (H.Kong)(p)†◆	300	2000	10	(p)	100	CSFB	-
Mitsui Taiyo Kobe(r)†◆	1.2bn	2000	10	(r)	100	Mitsui Taiyo Kobe Int.	-
Sanwa Bk (H.Kong)(v)†◆	500	2000	10	(v)	100	Sanwa Int.	-
CANADIAN DOLLARS							
GECC◆	100	1992	2	11⅜	102	Merrill Lynch Int.	10.689
IBM Canada◆	150	1995	5	11⅜	100.65	Wood Gundy Inc.	11.198
Shell Canada◆	150	1995	5	11⅝	101.60	Wood Gundy Inc.	11.190
Credit Local de France◆	100	1993	3	11½	101⅜	Bankers Trust Int.	10.938
NEW ZEALAND DOLLARS							
State Bk of Sth.Aust.◆	50	1994	4	14⅛	101.95	Hambros Bk	13.463
D-MARKS							
Shinsho Corp.of Japan♦◆	100	1994	4	5¼	100	Nomura Bk GmbH	5.250
Stora F'ning(d)◆	300	1994	3.916	(d)	100.20	WestLB	-
City of Ankara◆	150	1995	5	10¼	100	DG Bank	10.250
Hungarian Nat.Bk◆	200	1995	5	10	100¼	Deutsche Bk	9.934
Kingdom of Belgium◆	300	1995	5	9	101⅜	WestLB	8.650
European Inv.Bk(a)†◆	300	2000	10	(a)	100	B.Vereinsbank AG	-
SWISS FRANCS							
Start Corp(b)★★§◆	83	1994	-	4¾	100	Nomura Bk (Switz)	4.750
Tokyo Suhin Kogyo(a)★★§◆	40	1995	-	5⅛	100	Bk de Svizzera Italiana	5.125
Nittoh Bion(f)★★§◆	30	1994	-	5	100	SBC	5.063
TSD Co.(l)★★§◆	45	1995	-	4¾	100	Yamaichi Bk (Switz)	4.750
Nitto Arare Co.★★◆	30	1995	-	8	99¾	Dai-Ichi Kangyo Bk	8.063
Marunaka Co.★★◆	10	1995	-	8	99¾	Mitsubishi Bk (Switz)	8.063
World Bank(i)◆	150	2000	-	7¼	101¼	UBS	7.071
Chisan Tokan Co.(m)★★§	60	1994	-	4¾	100	Credit Suisse	4.805
Ishizuka Glass Co.(u)★★♦	80	1995	-	5¼	100	Credit Suisse	5.250
STERLING							
British Telecom(t)◆	100	1993	2⅓	13¼	102.556	CSFB	12.331
ECUs							
Toyota Motor Cr.Corp◆	75	1994	3⅔	10⅝	102.175	Paribas Cap.Mkts	9.852
Republic of Finland◆	250	1995	5	10¼	101¼	CSFB	9.921
YEN							
European Inv.Bk◆	25bn	1997	7	8	101⅛	IBJ Int.	7.738
Toronto Dominion Bk◆	2.7bn	1991	1	14⅛	101⅛	New Japan Secs.	12.855
Express Train◆	10bn	1993	2¾	7.08	101⅛	Bk of Tokyo Cap.Mkts	5.401
Nissan Cap.of America◆	10bn	1993	3	8½	101⅛	Daiwa Europe	8.063
Marubeni Int.Fin.◆	7bn	[illegible]	5	8¼	102.175	Yamaichi Int.	7.709
Sharp Int.Fin.(UK)◆	14bn	1995	5	8¼	102.175	Yamaichi Int.	7.709
LUXEMBOURG FRANCS							
Bacob Finance NV★★◆	500	1996	5½	10	102	Banque UCL	9.489
Lease Plan Hldgs.NV★★◆	300	1995	5	10	101¼	BIL	9.305
Merrill Lynch & Co.(g)★★◆	900	1994	4	10	101.85	BIL	9.424
CL Belgium Fin.(h)◆	1¾bn	1997	7	9⅞	102	Credit Lyonnais	9.471
Van Ommeren Cetaco★★◆	300	1993	3	10	101⅝	KBL	9.354
BIL(n)★★◆	1½bn	1997	7	9⅞	102	BIL	9.471
Wereldhave NV★★◆	750	1993	3	10⅛	101.95	Credit Europeen	9.350
L'Bank Rhein-Pfalz Int.★★◆	500	1996	5½	10	101⅝	BGL	9.579
GUILDERS							
SHV Holdings(q)★★◆	100	2000	10	9¾	(q)	Bank Mees & Hope NV	-

★★Private placement. §Convertible. †Floating rate note. ♦With equity warrants. ◆Variable rate notes. ◆Final terms. a) Callable 2/10/91 at 102 decreasing by ½% semi-annually. Conversion premium fixed at 2.67%. b) Put option 31/12/92 108½% to yield 8.245%. Conversion premium fixed at 1.67%. c) Issue in form of Loan Participation Certs issued via Salomon Bros. AG. Proceeds from Loan Certs. will be used to fund and maintain a 10 year subordinated loan to Mitsubishi Bk (London branch) Callable after 5 years on each coupon payment date at par. Coupon pays 3-month Libor plus 25bp for first 5 years, then 3 month Libor plus 35bp thereafter. d) Coupon pays 6-month Libor plus ⅛. Non-callable. e) Subordinated VRN issue. Coupon pays initially 27bp over 3-month Libor. Alternative margin, years 1-5 Libor plus 60bp, years 5-12 Libor plus 70bp. f) Put option 30/9/93 110⅛% to yield 8.379%. Callable on 30/9/93 at 110% then 101% on 31/12/93 decreasing ½% every 6 months. Coupon paid semi-annually. Conversion premium fixed at 2.51%. g) Amount increased from LFr600mn. Non-callable. h) Euroflux issue. Amount increased from LFr1.5bn. Non-callable. i) Callable after 5 years at 101 ½%. j) Global issue. Fixed re-offer price. Coupon payable semi-annually. k) FRN/fixed issue. Callable after 2 years at par. Coupon pays 95bp over 6-month Libor, then pays fixed coupon of 10% thereafter. l) Put option 30/9/92 107⅛% to yield 8.301%. m) Put option 31/12/92 108¾% to yield 8.402%. n) Amount increased from LFr1bn. Non-callable. o) Subordinated FRN issue. In the form of Subordinated Loan Participation Certs via Yamaichi Int.(Deutschland). Coupon pays 3-month Libor plus 30bp, then 3-month Libor plus 40bp thereafter. Callable after 5 years at par, once only. p) Subordinated FRN issue, on fiduciary basis by BGL. Coupon pays Libor plus 30bp for first five years, then Libor plus 40bp thereafter. Callable from Sept 1995 at par. q) For further details, refer to first tranche issued 9 May 1990. Non-callable. r) Amount increased from $1bn. Coupon pays 3-month Libor plus 30bp for first 5 years, then 3-month Libor plus 40bp thereafter. Callable at par after 5 years, and on every coupon date thereafter. s) Coupon pays 6-month Libor minus 15bp. Callable after 5 years at coupon date each year, thereafter. t) Fully fungible with existing £400mn due on 12/11/93. u) Callable 11/10/93 at 101% declining ½% annually. v) Subordinated FRN issue on fiduciary basis via Morgan Stanley Luxembourg SA. Coupon pays Libor plus 25bp for first 5 years, then Libor plus 35bp thereafter. Callable after 5 years at par. Note: Yields are calculated on AIBD basis.

Continued on next page

WORLD STOCK MARKETS

AUSTRIA

1990 High	Low	September 14	Price Sch
5,430	2,885	Austrian Airlines	3,400
7,300	4,982	Creditanstalt	5,000
29,590	19,700	Erste Allgemeine	22,000
19,600	12,400	Jungbunzlauer	12,400
1,435	660	Laenderbank	1,205
14,230	8,350	OeMV	9,850
2,380	1,570	Perlmooser	1,570
1,400	810	Radex	907
3,400	1,930	Reiningkaus	2,120
250	115	Steyr-Daimler	175
1,510	760	Veitscher Mag	903
770	425	Verbund	510
7,580	4,360	Wienerberger	5,090

BELGIUM/LUXEMBOURG

1990 High	Low	September 14	Price Frs.
5,700	3,830	Arbed	[illegible]
3,520	2,510	B.B.L	2,650
15,700	14,800	Bank Intl a Lux	14,800
15,000	14,000	Banque Gen. Du Lux	14,000
37,000	32,000	Banque Nat Belg	33,950
2,470	1,550	Barco	1,725
16,650	8,490	Bekaert B	8,490
9,900	6,850	Ciment CBR	7,000
5,990	4,850	Cobepa	4,905
6,030	4,900	Do. AFV I	4,950
214	146	Cockerill	159
2,970	1,860	Colruyt	2,390
6,920	5,000	Delhaize	5,830
4,560	3,755	EBES	3,980
4,490	3,670	Do. AFV 1	3,870
544	145	Fabrique Nat	172
1,476	1,194	GIB Group	1,264
1,460	1,072	Do. AFV	1,266
4,640	3,400	GBL(BruxL)	3,450
4,630	3,400	Do. AFV 1	3,445
952	648	Gechem	712
930	620	Do. AFV	718
5,900	4,110	Generale Bank	4,390

FRANCE (continued)

1990 High	Low	September 14	Price Frs.
935	709	Beghin-Say	794
685	480	Do Certs	631
3,480	2,695	Bongrain	2,941
683	444 9	Bouygues	472
1,534	972	CGIP	972
235	119 9	CMB Packaging	130.5
3,780	3,065	Carrefour	3,165
215	108	Casino	128
649	362	Cetelem	362
1,376	757	Chargeurs	794
1,813	1,230	Ciments Fr	1,230
788	402.1	Club Mediterranee	423
486	345	Cogifi	390
652	483	CGE	510
771	343	Coparex	700
262.8	154	CCF	164 9
1,420	975	Cred Foncier Fr	990
898	590	Cred Lyonn (CI)	690
1,591	1,000	Credit National	1,120
4,330	2,505	Damart	2,510
5,770	2,870	Docks de France	3,311
643	380	Dollfuss-Mieg	400
768	485	Dumez S.A.	615
2,750	2,015	Eaux (Cie Gen)	2,108
620	353.5	Ecco	353.5
730	511	Elf-Aquitaine	685
525	406	Do. Certs	484 1
1,400	901	Epeda-Bertrand	960
604	346	Essilor	400
2,515	1,750	Etex	1,800
2,690	1,271	Eurafrance	1,425
2,450	1,430	Eurocom	1,630
108.2	84.2	Euro Disneyland	87 4
4,920	2,982	Euromarche	2,990
2,029	1,324	Exor	1,460
221	155	Finextel	155
1,120	770	Fonciere Lyonn	770
2,700	1,575	Fromageries	1,830
1,812	1,201	GTM-Entrepose	1,391
1,126	802	Gaumont (Soc N)	951
1,409	940	Gen Geophysique	1,368

GERMANY (continued)

1990 High	Low	September 14	Price Dm.
658	455	BMW	475
459	362	Bayer-Vereis	374
855	515	Beiersdorf	790
175	128	Berliner Kraft	133.5
528	390	BHF-Bank	403
1,004	604	Bilfinger & Berg	890
1,010	580	Brown Boveri	785
1,480	990	Colonia Versich	1,110
955	595	Do Pref.	606
336.1	253	Commerzbank	257.5
344.5	281	Continental AG	285.2
890	633	DLW	640
955	637	Daimler-Benz	686
240	167.5	Deckel (Fr.)	185
588	337.5	Degussa	338
253.5	146.8	Deutsche Babcock	155
850	645	Deutsche Bank	659
285	181	Didier-Werke	201
929.5	740	Douglas Hldgs	847
380	260	Dragerwerk	315
472.5	388	Dresdner Bank	399
507	339	Fag Kugelfischer	342
373	275	Feldmuehle	275
750	472	Goldschmidt (TH)	685
232	174	Hamburg Elekt	195
518	365	Hapag Lloyd	376
1649.8	1,060	Heidelberger Zem	1,110
693.8	548	Henkel Pref.	579
396	212.8	Herlitz	355
1,563	970	Hochtief	1,160
319	220	Hoechst	226 9
371	243	Hoesch	243
1,779	1,057	Holzmann (P)	1,460
369	200	Horten	233
327	234	Industriekredit	274
495	271	Industrie Werke	295
280.5	177	Kali & Salz	185
756	602	Karstadt	662
700	536	Kaufhof	607
291	191.5	KHD	191.5
258.5	135	Kloeckner Werke	138.5

CANADA

TORONTO

Closing prices September 14

MONTREAL

Closing prices September 14

Total Sales 5,901,873 shares.

INDICES

NEW YORK

DOW JONES	Sept. 14	Sept. 13	Sept. 12	Sept. 11	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
◆Industrials	2564.11	2582.67	2625.74	2612.63	2999.75 (16/7)	2483 42 (23/8)	2999 75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.54	89.65	89.49	89.51	93 04 (3/1)	88.48 (2/5)	—	—
Transport	889.42	898 11	908.65	909.84	1212.77 (6/6)	861.31 (23/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	199.20	201.46	201.71	200.08	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

◆Day's High 2585.15 (2629.21) Low 2545.54 (2570.54)

STANDARD AND POOR'S

	Sept. 14	Sept. 13	Sept. 12	Sept. 11	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	316.83	318.65	322.54	321.04	368.95 (16/7)	307.06 (23/8)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials (Latest)	374.62	376.88	381.96	380.23	437.37 (16/7)	362.23 (23/8)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	22.93	23.25	23.64	23.64	31.87 (3/1)	22.87 (23/8)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	174.15	175.16	177.09	176.39	201.13 (16/7)	168.88 (23/8)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	321.45	322.01	323.19	323.01	382.45 (5/1)	315.85 (23/8)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	374.41	376.18	380.32	379.49	469.60 (16/7)	360.22 (23/8)	485.73 (9/10/89)	54.87 (31/10/72)

	Sept 7	Aug 24	Aug 17	year ago (approx.)
Dow Industrial Div Yield	3.86	4.29	4.10	3.70
	Sept 12	Sept 5	Aug 29	year ago (approx.)
S & P Industrial div. yield	3.28	3.24	3.24	2.81
S & P Ind. P/E ratio	15.44	15.47	15.47	14.42

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Digital Equip	2,213,700	56¼	- 2¼
Wal-Mart Stores	1,985,600	26¼	- ⅛
Chemical Bkg.	1,715,300	20¼	- ⅛
Gen Electric	1,700,400	59⅛	- ⅞
Gulf States Util	1,696,700	9⅞	+ ⅛
Prime Motor	1,677,300	1⅛	- ½
Boeing	1,360,100	46⅛	- ⅝
IBM	1,347,600	104⅛	- ⅜
Waste Man	1,341,400	34⅛	- ⅛
Philip Morris	1,291,000	44⅛	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Sept. 14	Sept. 13	Sept. 12
New York	133.390	124.922	129.890
Amex	8.727	8.006	9.261
NASDAQ	(u)	105.651	98.468
Issues Traded	(u)	1,938	1,941
Rises	(u)	421	783
Falls	(u)	1,005	629
Unchanged	(u)	512	529
New Highs	(u)	9	10
New Lows	(u)	99	91

CANADA TORONTO

	Sept 14	Sept 13	Sept 12	Sept 11	1990 HIGH	1990 LOW
Metals & Minerals	3010.10	3050.90	3074.10	3005.40	3453.05 (4/1)	2850.80 (23/4)
Composite	3253.68	3264.39	3271.80	3272.30	4009.47 (3/1)	3253.68 (14/9)
MONTREAL Portfolio	1698.67	1706.51	1710.83	1710.44	2060.90 (3/1)	1698.67 (14/9)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 14 September 1990

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H

[illegible]

Abtrust Management Ltd (1200)H

10 Queens Terrace, Aberdeen AB9 1QJ

[illegible]

Brown Shipley & Co Ltd – Contd.

[illegible]

Brycourt Unit Tst Mgmt Ltd (1400)F

[illegible]

Buckmaster Mangmt Co Ltd (1200)H

[illegible]

Burrage Unit Tst Mangmt Ltd (0905)F

[illegible]

CCF Foster Braithwaite UT Mngt (1100)F

1 White Hart Yard, London SE1 1NX

[illegible]

CCL Unit Trusts Ltd (1400)F

[illegible]

Mercury Fund Managers Ltd (1000)H

[illegible]

Newton Fund Mngrs Ltd (1200)F

[illegible]

Norwich Union Tst Managers (1200)H

PO Box 124, St Peter's Lane, Norwich

[illegible]

Schroder Unit Trusts Ltd – Contd.

[illegible]

Mathews Unit Trust Managers Ltd (1200)H

[illegible]

Mayflower Management Co Ltd (1200)F

[illegible]

Medical Investments Ltd (1100)F

[illegible]

National Provident Inv Mgrs Ltd (1400)H

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES [illegible]

OFFER PRICE The price at which units may be bought.

BID PRICE The price at which units may be sold.

CANCELLATION PRICE [illegible]

TIME [illegible]

HISTORIC PRICING [illegible]

FORWARD PRICING [illegible]

SCHEME PARTICULARS AND REPORTS [illegible]

Continued on next page

FT MANAGED FUNDS SERVICE

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Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin. 0296 394000 Dealing. 0296 312156						
American Eagle	5	61.56	61.56	65.65	1.17	41482
Australia	5	6.388	6.388	6.834	3.90	41483
Equity	5	140.7	140.7	150.9	5.10	41486
Euro Spec Sits	5	104.3	104.3	112.2	0.61	41487
Financial	5	[illegible]	[illegible]	[illegible]	3.18	41488
Global Opps Inc	5	60.15	60.15	64.65	0.00	41489
Global Opps Acc	5	60.60	60.60	65.14	0.00	41490
Gold & Gen Inc	5	41.07	41.07	44.11	0.91	41491
Gold & Gen Acc	5	76.55	76.55	82.21	0.91	41492
Income	5	86.20	86.20xd	92.76	6.68	41493
Japan & General	5	113.1	113.1xd	121.8	0.00	41494
Preference Share	5	17.48	17.48	18.79	14.12	41497
UK Capital	5	77.16	77.16xd	82.75	4.07	41500
World Income	5	55.74	55.74	59.69	5.92	41501
Worldwide Capital	5	148.8	148.8	159.9	3.42	41502
Templeton Unit Trust Managers Ltd (1200)F						
Atholl Crescent, Edinburgh EH3 8HA 031 228 9932						
Global Growth Acc	6	[illegible]	[illegible]	[illegible]	3.31	46671
Global Growth Inc	6	98.77	99.44	106.35	3.31	46672
Global Balanced Acc	6	99.88	100.30	107.28	4.57	46669
Global Balanced Inc	6	94.96	95.36	101.99	4.57	46670
Value Tst Acc		73.92	75.01	80.23	4.12	42642
Value Tst Inc	6½	72.08	73.14	78.23	4.12	46990
Intl Pen & Ch'ties Inc	2	98.50	99.88	104.86	3.57	46989
Intl Pen & Ch'ties Acc	2	96.57	97.93	102.81	3.57	41505
Thornhill Unit Trust Managers Ltd (1200)F						
38 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	47.17	47.45	50.47	–	47874
Overseas	5	41.82	42.09	44.77	–	43776
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 0DH 071-493 7262						
Dealing 071-493 8545						
American Opps	5	44.47	44.47	47.43	0.24	41506
(Accum Units)	5	45.77	45.77	48.81	0.24	41507
Cash	0	50.17	50.17	50.17	14.82	45247
(Accum Units)	0	50.17	50.17	50.17	14.82	45248
European Opps	5	64.88	64.88	69.19	0.00	41508
(Accum Units)	5	65.23	65.23	69.57	0.00	46366
Far Eastern Opps	5	110.22	110.22	117.56	0.00	41509
(Accum Units)	5	110.93	110.93	118.31	0.00	41510
Golden Opps	5	31.60	31.60	33.70	0.00	41511
(Accum Units)	5	32.50	32.50	34.66	0.00	46367
Intl Hi-Yield	5	51.65	51.89	55.33	4.98	41512
(Accum Units)	5	56.30	56.56	60.32	4.98	46368
Sanyo Japan Tst	5	62.21	62.21	66.35	0.00	41513
(Accum Units)	5	62.21	62.21	66.35	0.00	41514
Kangaroo	5	27.87	27.87	29.71	1.41	41515
(Accum Units)	5	29.09	29.09	31.02	1.41	46369
Little Dragons	5	38.55	38.55	41.10	0.00	43157
(Accum Units)	5	38.55	38.55	41.10	0.00	43158
Oriental Income	5	30.85	30.85	32.90	5.31	41516
(Accum Units)	5	35.20	35.20	37.54	5.31	41517
Tiger	5	122.1	[illegible]	[illegible]	0.85	41520
(Accum Units)	5	124.52	124.52	[illegible]	0.85	41521
UK Hi-Yield	5	35.99	35.99	38.37	5.96	41522
(Accum Units)	5	42.11	42.11	44.91	5.96	46302
UK Smllr Cos	5	49.04	49.04	52.44	0.81	41523
(Accum Units)	5	53.43	53.43	57.14	0.81	41524
Three Counties Asset Mngmt Ltd (1430)F						
Colbert House, Tower Road, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	85.83	87.82	92.77	6.20	47942
Cash Deposits		101.54	101.54	101.54	14.00	44070
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	92.14	92.14xd	95.38	2.12	42679
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing – 12 Noon Historic						
TR American Grth	5¼	38.81	38.81xd	41.39	0	41525
TR Eur Sp Sits Acc	5¼	37.82	37.82	40.35	0	41526
TR Eur Sp Sits Inc	5¼	37.08	37.08	39.56	0	41527
TR Far East Opps Inc	5¼	18.07	18.07	19.31	0	41660
TR Far East Opps Acc	5¼	18.07	18.07	19.31	0	41685
TR General Growth	5¼	67.38	67.38	71.68	3.34	41528
TR Global Tech	5¼	60.84	60.84	64.89	0	41529
TR Income Growth	5¼	76.82	77.12	82.04	4.85	41530
TR Income Monthly	5¼	45.85	45.85	48.77	7.88	41531
TR Japan Growth	5¼	69.83	69.83	74.10	0	41532
TR Overseas Growth	5¼	54.33	54.33	58.02	0	41533
TR Smaller Cos	5¼	63.94	63.94	68.02	1.40	41534
TR Special Opps	5¼	69.63	69.63xd	74.07	3.02	41535
TR Mgd Ex Plan Acc	5¼	31.66	31.66	33.68	3.26	41536
TR Mgd Ex Plan Inc	5¼	[illegible]	[illegible]	[illegible]	3.26	41537
TR Wwde Sp Sit Acc	5¼	32.27	32.27	34.77	0	41538
TR Wwde Sp Sit Inc	5¼	32.34	32.34xd	34.74	0	41539

	Bid Price	Offer Price	Yield Gross	City-line
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Sept 5	41.9	43.6xd	2.39	41064
Euro Expt Sept 5	50.8	[illegible]	[illegible]	41065
Fixed Int Ex Sept 5	[illegible]	43.5	11.02	46594
Japan Expt Sept 5	41.5	40.2	0.77	41066
Managed Ex Sept 6	40.0	41.5	3.25	41067
SE Asia Expt Sept 5	62.1	65.1	3.32	41068
Sm Cos Expt Sept 5	32.1	33.7	5.17	41069
UK Eqty Ex Sept 5	37.2	39.0xd	4.86	41070
Phillips & Drew Fund Management Ltd				
Small Co's Sep 5	641.8	685.8	5.25	41138
Do Accum	706.9	756.2	5.25	41139
Intl Expt Sept 13	159.1	161.8	3.4	41140
UK Index Sept 5	1015	1035	5.1	46945
Do Accum	1059	1080	5.1	46946
Convertible Sept 10	83.40	85.88	8.3	46938
World ex UK Index Sept 10	685.8	695.0	2.40	47887
Do Accum	685.5	695.0	2.40	47888
Japan Index Sept 10	553.8	561.9	0.6	47881
Do Accum	554.8	562.9	0.6	47882
USA Index Sept 10	781.8	786.9	3.7	47885
Do Accum	792.8	797.9	3.7	47886
Europe ex UK Index Sept 10	854.2	875.1	2.8	47879
Do Accum	867.9	888.6	2.8	47880
Pacific ex Jap Index Sept 10	833.2	856.2	5.2	47883
Do Accum	848.9	872.3	5.2	47884
Managed Exempt Sept 13	92.52	94.11	5.58	40338
NM Rothschild Asset Management Ltd				
NC Managed	53.7	57.2xd	4.21	40339
NC Property	174.5	196.5	–	41205
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum.	130.5	131.6	2.97	44085
Stewart Ivory & Co Ltd				
Saints PPP Aug 13	245.8	258.1	–	41422
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt Sept 3	91.53	96.99	4.26	46475
(Accum Units)	93.34	98.87	4.26	46976
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1037	1048	2.54	47801
TR Exempt Nth Amer	783	799	4.07	47802
TR Exempt Pac Basin	757	767	1.64	47803

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Society				
(Investment Mngt M & G Inv Mngt Ltd)				
AA Friendly Sy Aug 10	–	170.3	–	41607
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	288.0	303.2	–	41608
Equity Ser 1	114.9	121.0	–	41609
Prop. Acc. Ser 2	443.6	467.0	–	41610
Equity Ser 2	137.2	144.5	–	41611
Selective Acc.	329.4	346.8	–	41612
Prop. Ser 4	356.0	374.8	–	41613
Equity Ser. 4	144.3	151.9	–	41614
Man. Ser. 4	420.1	442.3	–	41620
Fixed Int. Ser. 4	222.3	234.1	–	41615
Indexed Inv. Ser. 4	147.0	154.8	–	41616
American Ser 4	276.9	291.5	–	41617
Japan Ser 4	271.4	285.7	–	41619
European Ser 4	114.8	120.9	–	41622
High Inc. Ser 4	433.7	456.6	–	41618
Money Ser. 4	256.5	270.0	–	41621
Intl Ser. 4	106.7	112.4	–	47021
Custodian Ser 4	103.1	108.6	–	47022
Pension Funds				
Property	627.0	660.1	–	41623
Equity	1031.3	1085.6	–	41624
Selective	357.7	376.6	–	41625
Managed	783.4	824.7	–	41626
Security	512.0	539.0	–	41627
Fixed Int.	267.3	281.4	–	[illegible]
Indexed	159.9	168.0	–	[illegible]
American	219.7	231.3	–	41630

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

Britannia Life Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Citicorp British National

City of Edinburgh Life Assurance Co Ltd

City of Westminster Assurance (z)

Allied Dunbar Assurance Plc

Aetna Life Assurance Co Ltd

Albany Life Assurance Co Ltd

Alltas Life Insurance Co Ltd

Ambassador Life Assc. Co Ltd

Clerical Medical/Fidelity International – Contd.

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Insurance Co Ltd

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Clerical Medical/Fidelity International

Equity & Law

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident (z)

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration(z)

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

The LAS Group

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MLA

Manchester Unity Assurance

ManuLife Group PLC

Merchant Investors Assurance Co Ltd – Contd.

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Financial Management Corp PLC

National Mutual Life

National Provident Institution

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Cent. Bd. of Fin. of Church of England

Charities/Charishares (1000)F

CAFINVEST–Charities Aid Foundation

COIF–Charities Official Inv Fd

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Foreign & Colonial Pens Mngt Ltd

Henderson Unit Trust Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

MLN

Morgan Grenfell Unit Trust Managers Ltd

Trades Union Unit Tst Mngrs (1200)H

Tyndall Unit Tst Mngrs Ltd (1600)F

UK Unit Trust Managers Ltd (0900)F

UTAM Ltd (1300)F

United Charities Unit Trusts (1000)H

Wardley Unit Tst Mngrs Ltd (1500)F

Waverley Unit Tst Mngmt Ltd (1000)F

Wesleyan (1330)F

Whittingdale Unit Tst Mngmt Ltd

Willlow Financial Services Ltd (0900)F

Wright Seligman Fund Mngrs Ltd (1700)F

The Yorkshire Unit Tst Mngrs Ltd (1100)F

Continued on next page

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Norwich Union Asset Management Ltd

PO Box 124, Norwich NR1 3JS 0603 683986

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	61.3	64.6	-	43191
Stock Market Magd Fund	58.5	61.5	-	43192
Equity Fund	65.3	68.8	-	43193
International Fund	52.3	55.1	-	43194
European Fund	64.3	67.7	-	43195
North American Fund	50.8	53.5	-	43196
Pacific Fund	55.6	58.5	-	43197
Property Fund	87.0	91.6	-	43198
Fixed Interest Fund	51.2	53.9	-	43199
Index linked Sec Fund	57.7	60.8	-	43200
Deposit Fund	65.0	68.5	-	43201
NUAM Retirement Plans				
Mixed Fund	66.5	70.0	-	43202
UK Ordinary Share Fd	75.3	79.2	-	43203
International Fund	56.9	59.9	-	43204
Property Fund	85.2	89.7	-	43205
Fixed Interest Fund	60.7	63.9	-	43206
Index Linked Sec Fund	60.9	64.1	-	43207
Deposit Fund	75.1	79.0	-	43208
NUAM (Int)				
Managed Fund	868.2	913.9	-	43209
Equity Fund	[illegible]	[illegible]	-	43210
International Fund	138.2	145.5	-	43214
Property Fund	550.3	579.3	-	43211
Fixed Interest Fund	383.5	403.7	-	43212
Index Linked Sec Fund	58.7	61.8	-	43215
Deposit Fund	267.2	281.3	-	43213

Norwich Union Life Insurance Soc.

Surrey Street, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	City-line
Unitised Life				
With Profits Fd	104.46	109.96	-	47620
Managed Fd	83.52	87.91	-	47615
UK Ord Share Fd	85.89	90.41	-	47619
International Fd	77.49	81.57	-	47613
European Fd	89.19	93.89	-	47611
North American Fd	77.33	81.40	-	47616
Pacific Fd	70.29	73.99	-	47617
Property Fd	99.86	105.11	-	47618
Fixed Int Fd	92.48	97.35	-	47612
Intl Bond Fd	88.10	92.74	-	47614

Providence Capitol Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Individual Pension Funds				
UK Equity Acc	206.3	217.7	-	43454
UK Fixed Interest Acc	188.8	199.2	-	43455
Intl Equities Acc	209.1	220.6	-	43456
UK Managed Acc	168.7	177.9	-	43457
Property Acc	208.4	219.9	-	43458
Money Acc	147.0	155.1	-	43459
Special Market Acc	218.2	230.2	-	43460
Japan Equity Acc	159.1	167.9	-	46761
North American Acc	106.7	112.6	-	43462
Pacific Acc	162.7	171.7	-	43463
Technology Acc	139.9	147.6	-	43464
Natural Resources Acc	102.4	108.1	-	43465
European Acc	116.2	122.6	-	43467
Residential Prop Acc	105.7	111.6	-	43468
Swiss Equities Acc	35.0	37.0	-	43469
Hong Kong Acc	[illegible]	50.4	-	43470
UK High Inc Eqy Acc	66.9	70.6	-	43471
Int Fixed Interest Acc	52.4	55.3	-	46410
Int Managed Acc	53.7	56.6	-	46411
Group Pension Funds				
Equity Acc	713.8	735.9	-	43473
Fixed Interest Acc	556.5	573.8	-	43474
Managed Acc	120.7	123.1	-	43475

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-line
Unit Fund (Mixed)	983.8	1033.0	-	43476
Equity Fund	224.3	235.5	-	43477
International Fd	131.3	137.9	-	43478
Fixed Interest Fd	155.1	162.9	-	43479
Property Fund	227.3	238.7	-	43480
Index-Linked Fund	146.1	[illegible]	-	43481
Deposit Fund	154.2	161.9	-	43482
Pens. Mixed (Ord) Fd	239.2	251.2	-	43483
Gold Pensions				
Discretionary Fund		116.5	-	46412
Equity Fund		115.9	-	46413
Fixed Interest Fund		113.1	-	46414
International Fund		[illegible]	-	46415
Property Fund		138.0	-	46416
Index-Linked Fund		122.1	-	46417
Deposit Fund		131.5	-	46418

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

Continued on next page

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Arab Bank Fund Managers (Guernsey) Ltd				
ABL International Fund Ltd				
US Dollar Money	$10 25	10 25	-	47942
Managed Currency	$10 27	10 28	-	47941
International Bond	$10 13	10 16	-	47940
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dirl..	$10.18	10.83	-	47318

	Bid Price	Offer Price	Yield Gross	City-line
Sarasin (Isle of Man) Ltd				
Fergus Fd Sept 13	£12 10		-	47346
UK Trend Sept 13	£8.80		-	47347
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£8 34	9.02	-	46450
Fleet Street Inv Fd	£7 29	7 75	-	46578

MIM Britannia International Limited

All Funds deal daily except where indicated.

Commercial Union Luxembourg SA (u)

41 Ave de la Gare L-1611 010 352 402820261

S.G. Warburg Asset Mngmt Lux SA – Contd.

Wardley Investment Services (Lux) SA (u)

Target International Fountain Fund

Templeton Worldwide Investments

GT Management Plc – Contd.

GW Investment Mngmt Ltd

Gaia Currency Funds

GAM Fund Management Ltd (u)

North Star Fund Managers – Contd.

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

ERM in November?

THE MAIN condition for sterling to become a full member of the European Monetary System is that British inflation moves down towards the average level in the European Community. At first glance Friday's announcement that August year-on-year inflation had jumped to 10.6 from 9.8 per cent looks to be a marked setback, but oil price rises induced by the Gulf crisis will insure that inflation moves up throughout the industrialised world.

UK clearing bank base lending rate 15 per cent from October 5, 1989.

Mr Neil MacKinnon, chief economist at Yamaichi in London, believes that oil price rises will hit Germany and France harder than Britain, and the general view in the City seems to be that UK inflation will begin to show a fall from the October figures announced on November 16.

Some time in November now seems to be the favourite time for the pound to join the EMS exchange rate mechanism. Mr Roger Bootle, chief UK economist at Midland Montagu Research, suggests November is likely but October is possible, although the Gulf crisis has probably thrown any timetable off beam.

Mr Bootle is also looking for an early cut in bank base rates, as the economy slows down, but Mr MacKinnon says ERM membership is not a soft option and that rates will have to stay at 15 per cent until the new year.

Mr Nick Parsons, economist at Union Discount, believes the political arguments favour ERM membership in November, and thinks the 11th is the most likely date. He suggests this will be just before a pessimistic Autumn Statement from the Chancellor and also before an important EC inter-government conference in December. November 11 is also Armistice Day, having symbolic implications for European unity.

£ IN NEW YORK

Sep.14	Close	Previous Close
£ Spot	1.8925-1.8935	1.8820-1.8830
1 month	1.04-1.02pm	1.03-1.02pm
3 months	3.06-3.03pm	3.02-3.00pm
12 months	10.2-10.1pm	10.0-9.95pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

STERLING INDEX

CURRENCY RATES

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

Citibank Savings
St Martins Hse, Hammersmith Grove W6 081-741 4941

NOTES—Gross rate to those exempt from composite rate of tax. Net actual rate after deduction of CRT Gr Equiv CAR Gross equivalent to basic rate taxpayers-compounded annual rate Int Cr frequency interest credited

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

FINANCIAL TIMES STOCK INDICES

	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Sep 7	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	78.27	78.56	78.61	78.52	78.27	78.07	84.20	74.13	127.4	49.18
Fixed Interest	87.10	87.15	86.63	86.47	86.33	86.30	92.91	83.80	105.4	50.53
Ordinary	1609.6	1632.9	1643.3	1651.0	1655.1	1638.5	1968.3	1604.2	2008.6	49.4
Gold Mines	189.0	192.3	191.2	191.4	195.4	194.6	378.5	167.9	734.7	43.5
FT-Act All Share	1017.95	1032.47	1039.28	1039.42	1040.59	1031.07	1226.83	1013.26	1238.57	61.92
FT-SE 100	2093.6	2127.1	2142.3	2144.3	2147.0	2122.9	2463.7	2075.0	2463.7	986.9

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 33p per minute peak and 25p off peak, inc VAT

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MOTORS, AIRCRAFT TRADES – Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST – Contd

[illegible]

INVESTMENT TRUST – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES – Contd

Miscellaneous

[illegible]

THIRD MARKET

3.47	Oxford Virology 5p. ♥	35	....	–	–	–	3117
13.2	Poddington 5p.......	77	....	–	–	–	2011
5.28	Ramsden's (Harry)... ♥	88	....	6.8	9.7	January	5228
5.36	Rentaminster 5p... ♥	32	....	8	–	Mar Oct	1645
1.81	Sempernova........ ♥	13	....	–	–	–	5068
4.40	Sleepy Kids 5p...... ♥	22	....	–	–	–	[illegible]
1.43	Swanyard Studios 1p ♥	1	–20.0	–	–	–	5341
0.42	Systems Connection.. ♥	2½	....	–	–	–	4348
7.06	Tomorrows Leisure 20p ♥	63	....	2.2	–	–	[illegible]
1.17	UPL Group 10p..... ♥	29	....	–	22.5	Dec. July	4362
9.63	Ucri Group.......... ♥	180	–0.6	3.7	9.7	Jan Aug Oct	4357
4.63	Video Magic Leis. 1p ♥	28	....	9.5	26.1	Jan July	5071
2.64	Vista Ents 5p...... ♥	2½	–8.3	–	–	–	3994
4.28	Vizcaya Hldgs 5p.. ♥	8	–11.1	–	–	–	4193
11.2	Wilton Group 1p... ♥	2½	....	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
† Interim since reduced, passed or deferred
‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
◆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially listed.
¥ Price at time of suspension
§ Not comparable
† Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
‡ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Craig & Rose £1.. ♥	600	....	Carroll (P.J.)....... ♥	110	4.0
Finlay Pkg. 5p.... ♥	51	....	Hall (R. & H.)	165	....
Holt (Jos) 25p.... ♥	1810	0 4	Heiton Hldgs....... ♥	58	–3
			IRG..................	190	....

IRISH

Cap. 8¾% Ln. 1991...	£98	....	United Drug..........	143	....
9pc Cap Ln. 1996.	£92	1.1			
Fin. 13% 97/02...	£108¾	....			
Arnotts...........	[illegible]				

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

Lonrho	21
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT Share Service

The following changes have been made to the Share Information Service:

Additions: Kajima Corporation (Section: Buildings).

Malvern UK Index Trust (Investment Trusts).

Pathfinders Group (Industrials).

Turkey Trust (Ord. & Warrants) (Investment Trusts).

Deletions: Airship Inds. (Engineering).

Hartwell (Motors).

Midsummer Leisure (Leisure).

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4pm prices September 14

Continued on Page 33

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
45¾	25½	RochTl	1.48	5.6	14	203	26¾	26	26	-1
22⅛	16¼	RckCtr	1.88	11	16	324	17½	17	17	-¼
28⅜	19⅝	Rockwl	.88	3.5	10	3491	25¼	24⅞	24⅞	-½
38⅞	28	RoHaas	1.24	4.3	11	962	29⅜	28⅞	28⅞	-¾
30⅜	18½	Rohr				115	17⅛	16⅝	16¾	-½
15¼	9⅝	RollinE	.08	.9	24	912	10⅜	10¼	10⅜	-⅜
20⅜	15⅞	Rollins	.56	3.2	16	119	17¼	17½	17⅝	-⅛
9¾	6¼	RolLeas	.20	3.1	7	159	6¾	6⅝	6⅝	-½
15⅞	7½	Rowan				2453	15¾	15½	15¾	+⅛
25¾	21¾	RBScot	pr2.82e	13.		209	22⅝	22⅛	22⅛	-¼
87	63⅝	RoylD	3.65e	4.6	13	5015	83¼	82¼	82⅞	+⅜
9⅞	8⅛	Royce	.52e	6.4		207	8⅜	8⅛	8⅛	-⅛
45	31	Rubmd	.52	1.5	21	1031	36½	34¼	35¾	-¾
18⅞	13¾	RussBr	.40	2.6	14	270	15½	15⅜	15½	
14⅛	6¾	RussTg	.20	3.1		67	6½	6⅜	6½	
31	20⅝	Russell	.32	1.4	14	1017	23⅞	23	23¼	
28½	14¾	Ryder	.60	4.2	44	2513	14¼	d13⅞	14⅛	-½
25⅝	15¼	Rykoff	.60	3.5	19	178	17¼	16⅞	17¼	+¼
24⅛	11⅞	Ryland	.60	4.8	4	337	12¼	11⅝	12¼	+⅜
13⅝	8	Rymer				90	6¼	6⅛	6¼	-⅛
10⅝	7	Rymr	pf1.17	16.		2	7½	7⅜	7½	
		- S - S - S -								
41	33½	SCEcp	2.64	7.4	9	2120	35½	34¼	35½	+⅛
14½	8½	SCOR U	.20	2.2	11	7	9	9	9	
9½	4⅝	SL Ind	.16	2.7	9	4	5⅞	5⅞	5⅞	+⅛
56½	30⅜	SPSTec	1.28	3.6	18	31	35⅝	35⅜	35⅜	-⅛
38⅝	20½	SPX Cp	1	4.2	16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices September 13

NASDAQ NATIONAL MARKET

4pm prices September 14

MONDAY INTERVIEW

Champion caught up in a crisis

Abdulla Saudi, president of Arab Banking Corporation, talks to **David Lascelles**

All bankers abhor a crisis, but few actually have to live through one. Someone who has is Mr Abdulla Saudi, the president and chief executive of Arab Banking Corporation, one of the leading banks in the Arab world.

Ever since Iraq invaded Kuwait, Mr Saudi has been dashing around three continents, fighting fires and doing his best to limit the damage of what is now clearly the worst blow ever to hit the Middle East banking market. He appears to be succeeding. ABC is still in business, and Mr Saudi himself was able to pause last week to take stock. "I hope things come to an end soon," he said, though his tone suggested that he doubted they would.

He was speaking in his bank's London branch close to the Bank of England where the top floor has been fitted out to resemble the courtyard of an emir's palace, complete with tinkling fountain. It conveyed an atmosphere of tranquility that was totally at odds with the realities.

Like all Gulf banks, ABC suffered a terrible financial shock with the invasion. Within hours, virtually all the big international banks had cut off their credit lines. In the days that followed there was a steady outflow of deposits. To make things worse, the US Government threatened to freeze the bank because the Kuwait Government owns 25 per cent of the shares. So Mr Saudi had to rush off to Washington to try and stop them.

It was not an unfamiliar situation. ABC had already been frozen once – during the Libya crisis in 1986 – because the Libyan central bank is another big shareholder. This time Mr Saudi managed to persuade the US that a freeze would do more harm than good, but it was a further indication of the special risks of being a bank in a turbulent part of the world.

By the end of August, the ABC parent bank had lost $1.4bn, or more than 10 per cent of its deposits, though it managed to cope with that because it has always run a very liquid balance sheet. Its big shareholders and the Gulf monetary authorities also supported it by placing large deposits.

Unlike some other Gulf banks, ABC has not had to sell any loans to raise cash, and Mr Saudi is keen not to because he thinks it would send the wrong signal to the market. Gradually, foreign banks are beginning to restore their credit lines.

But as well as financial injury, Mr Saudi feels that his bank suffered a great injustice as well. ABC is not Kuwaiti or even Iraqi. It is based in Bahrain, and the vast majority of its assets are located a great distance from the Gulf crisis zone. So it should have been out of the firing line. But when confidence goes in banking, it goes in a rush. ABC was big, Arab and in the Gulf, and that was more than enough to make it a target.

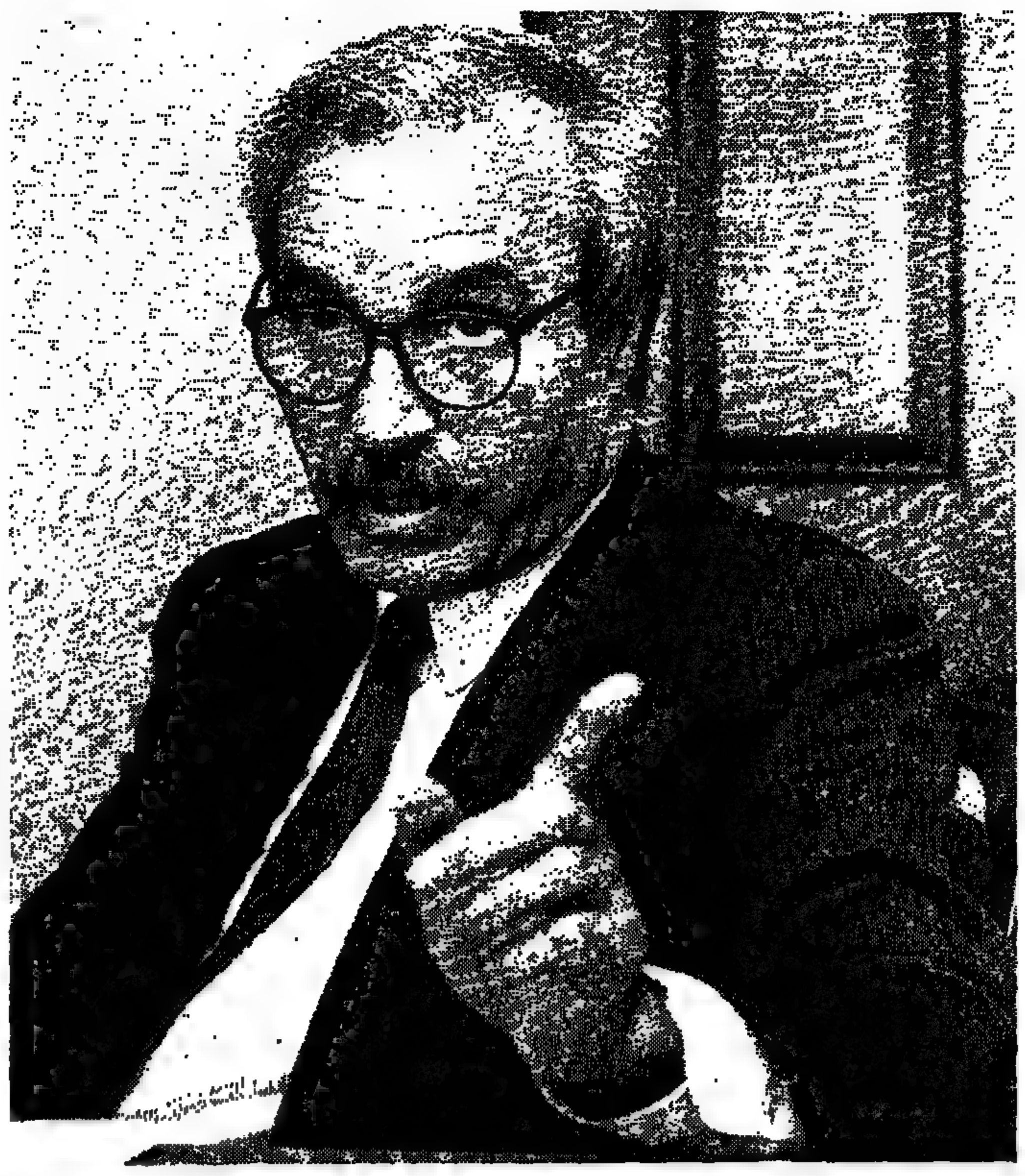
The speed with which his fellow bankers cut and ran has left Mr Saudi disturbed, even philosophical, about the way humans behave in a crisis. "We expected a strong reaction against Arab institutions, and I don't blame them. But bankers – and I am a banker so I can say this – always overlook the fundamentals and traditions. They don't look at the balance sheet. We allow ourselves to be guided by environmental changes that have nothing to do with the real problems."

Had bankers really looked at ABC, he says, they would have seen that it operates in 23 countries and that only 17 per cent of its assets were in Gulf states, and they were more than covered by deposits. Among other things, ABC owns Banco Atlantico, the ninth-largest bank in Spain, an ABC subsidiary in Germany, and a substantial business in London.

He is particularly critical of the Japanese banks which were the quickest to slam down the shutters. "You have to say that the Japanese were unfair to us," he says. "Maybe we should react more strongly against them. The value of their reserves has gone down a lot with the fall in the Tokyo stock market. If we were all to react like this, what would happen to international banking?" ABC has begun to mend its fences with the Japanese banks, and the first of them restored its credit lines at the end of last week.

The immediate lessons Mr Saudi has drawn from the crisis are the wisdom of geographical diversification, the value of duplicate computer systems, and the importance of personal contacts.

The first was the result of ABC's international ambitions: it has plenty to fall back on. The second was a precaution taken during the Iran-Iraq war when a well-aimed bomb on Bahrain could have wiped the bank out. Now, Mr Saudi can call up the bank's entire management information system in London as well. The third meant he could telephone through to all his bank's vital clients and depositors to try to keep them loyal. "They have to make their own judgments, but at least I could put the numbers in front of them," he said.



'I hope things come to an end soon'

The strength of Mr Saudi's feelings about the irrationality of bankers will not come as a surprise to his colleagues. He is well-known as a champion of the Arab banking cause, and he holds strong views about the need for the Arab world to develop its own financial institutions to challenge the western-dominated international banking "club." He helped found ABC exactly 10 years ago to lead that challenge, and now that ambition risks being thwarted.

PERSONAL FILE

- **1937** Born in Tripoli, Libya.
- **1955** Commerce and Accountancy diploma.
- **1957** Teachers' High Certificate.
- **1958-72** Central Bank of Libya.
- **1972-80** Chairman and general manager Libyan Arab Foreign Bank
- **1980** President and chief executive, Arab Banking Corporation.

A Libyan by birth, Mr Saudi spent most of his early career as a central banker. But in the 1970s he grew increasingly concerned at the way the fast-growing oil wealth of the Arab world was being funnelled into non-Arab banks. In 1979, he persuaded the governments of Libya, Kuwait and Abu Dhabi to invest $750m in his new bank, which he then built up into the $22bn institution which it is today.

His reputation is as a shrewd, aggressive banker with unusually wide experience of international business. One of his major deals while still in Libya in the 1970s was to manage his country's huge investment in Fiat, of which he was a board member. His drive, personal charm and fluency have given him a certain charisma, though he is known to display a Libyan's prickliness in the presence of non-Arabs; and some of his business judgments, like lending heavily to Latin America, have been questionable.

His ambition for ABC was always to start selling shares to private investors once it had become fully established. Ironically, that plan reached fruition only just before the Gulf crisis. In June, ABC sold its first tranche of new stock to the international market and picked up 3,600 shareholders. Mr Saudi was hoping to make another public offering so as to bring the government stake down to 50 per cent. But that will now have to be shelved, which is a great disappointment.

"The Arab world must have some sort of presence in the international banking community," says Mr Saudi. Quite how large that presence can be, particularly after recent events, is hard to judge, though Mr Saudi thinks there are still five Arab banks, including his own, which can realistically aspire to international status.

He believes they should be able to flourish by financing trade between the Gulf and the rest of the world. But their best prospects may lie in the rise in the oil price which has already been triggered by the crisis. Mr Saudi expects to see the oil price settle at about $22-$25, down from its current peak but well up on pre-invasion levels. This will boost revenues, "and we'll have a good share of that," he predicts.

But he expects the effects of the crisis, if not the crisis itself, to last a long time. "I don't want to be a pessimist but I can't be an optimist either. This is not like the market crash or the Iran-Iraq war. These are differences between Arab countries.

"No matter what happens, whether there is an amicable settlement or war, the damage has already been done to the area, and to recover we need a number of years, especially for our financial institutions."

"Arab financial institutions will be paying a very high cost. It took them a long time to be accepted, and even now they are not fully accepted. The international banking market is like some kind of club, and we may now find ourselves out of it, not because of things we have done wrong, but because of the situation in the Gulf."

Money vs sense in Washington

It is fortunate that in real life the dividing line between farce and tragedy is not very narrow, or the US would be in big trouble. As it is, trouble remains merely a possibility. What is forbidding, from a Washington point of view, is that the outcome will be determined more by investors than by anything the American authorities now seem capable of doing.

Meanwhile, it is still possible to laugh at the so-called budget process, which is still, as I write, filling the officers' mess at Andrews Air Force Base with smoke and swear-words. This has now passed the Gramm-Rudman, or Augustinian phase ("Let me balance the budget, but not yet") to old-fashioned American politics. The odd sensible idea may have been accepted, provided it causes little short-term pain; but it is still possible for well-informed reporters to tell us, with no hint of surprise, that other sensible proposals, such as a sharply higher tobacco tax, will probably be dropped for fear of the relevant lobby.

The fact that tiny interest groups such as the tobacco industry can still block national policies is a fundamental sickness in the American system. Theirs is the power which misdirects public investment (though this can hardly be called "bloated", for there is far too little of it), and which turned the logical tax reform proposals of 1986 into the labyrinthine code which emerged. As the late Jan Tumlir noted, a nation with a 2,000-page tax code cannot be said to have a market economy.

This corruption of the process is done the old-fashioned way, with money. Every year it seems to become more expensive to fight a US election; and so every year elected officials become more dependent on their big campaign contributors. These are the interests that legislators dare not offend.

Earlier this year, Congressional leaders came quite close to a meaningful reform of campaign finances. It came down in the end to a search for a compromise between the wish of the (under-financed) Democrats to cap total spending by a candidate, and the less-limiting

By Anthony Harris in Washington

ideas favoured by the Republicans. The issue went to the White House: President George Bush could have got a reform by gently banging a few heads. Instead, he chose to dish the Democrats; for there is an election pending. Chance gone.

It is just possible that the voters will have the last word, for in the Washington mayoral primary they have just thrown out the front runner, a personable councilman called John Ray who had a spotless reputation, in favour of a previously non-political woman lawyer, Ms Sharon Pratt Dixon. The main charge against Mr Ray was that his $4m campaign fund had been subscribed largely by local property developers. If other under-financed candidates can play this card effectively in November, the system could be reformed in spite of itself; but nobody is making a book on this outside chance. Policy remains a hostage to the shortest of short-term considerations.

One reason is that the American financial year has slipped into the worst possible timing. Until a few years ago, it used to start with the calendar year on January 1. However, politicians complained that this meant that budget negotiations interfered with their holidays – and, every other year, with their campaigning; so the start of the year was moved back a quarter, to October 1. This ensures that every other year Congress has to vote on contentious issues on the very eve of polling; a result which is very democratic in theory, but paralysing in practice.

They moved the date the wrong way, of course. Had it been moved forward to a British start in April, the budget process would have come just after national elections instead of just before them. The debate after the President's January proposals would have been shortened from eight months to two, and there would have been no "lame duck" post-election Congresses, distracted by the wish to get away for Christmas. One bar to common sense would thus be removed.

However, you cannot have sensible policies unless you start with sensible objectives; and such objectives cannot result from America's manic-depressive psychosis about the fiscal deficit. One year it doesn't matter, next year it is the root of all evil. It is logically possible to defend Mr Bush's argument that the deficit must be reduced to avert a recession; a cut in interest would certainly relieve this debt-ridden economy.

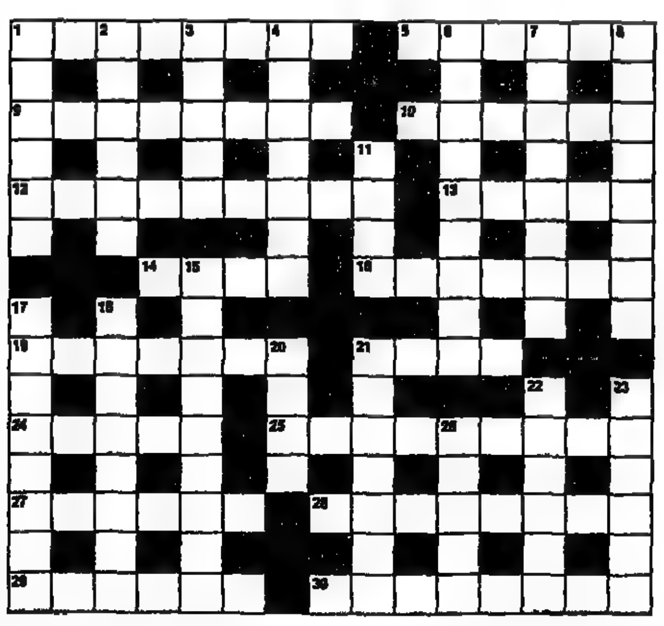
But when the General Accounting Office (GAO) argues that the long-term objective must be to cut the deficit not by the $500bn which all parties have implausibly promised over the next five years, but by a full trillion dollars, paradox has spilled over into insanity. The GAO, a watchdog agency which fills the role of the British Public Accounts Committee, does much valuable work in documenting waste and corruption; but it seems to have taken to grandstanding. In the last few days, it has grabbed the headlines with threatened bank failures, ever more horrific figures for the thrift clean-up, and now trying to turn fiscal policy into a branch of astronomy.

To repeat what seems to need repeating, the markets are not looking for miracles, or even for meaningless targetry, but simply for a sign that there is a policy which looks more than two months ahead, which keeps the numbers moving in the right direction, and above all for the assurance that somebody is in control.

JOTTER PAD

CROSSWORD

No.7,343 Set by QUARK



ACROSS

1 and 9 Raise super plants unexpectedly? It could be this for novice gardener (8,8)
5 and 10 Where horses are for hire, both disagreeable and reliable (6-6)
9 See 1 across
10 See 5
12 Omission? Take it as an offence (9)
13 Sounds built up reduced to a certain level (5)
14 Make reproduction of material for article (4)
16 It's unlikely slow man is puffed up (7)
19 When losing head at social gathering, something soothing is needed (7)
21 Side, one hears, is to come down heavily (4)
24 Way out – a tortuous route (5)
25 Regular river closure (9)
27 and 29 This certainly takes one back (6,6)
28 and 30 Odd fool takes in doctored gins, the subject of suspicion (8, 6-2)
29 See 27
30 See 28

DOWN

1 Bill removing name from gate (6)
2 Henri caught in trouble needing to improve (6)
3 Leather bits sticking up (5)
4 In an unpleasant way could be saintly! (7)
6 Lay to rest eastern bribe raised to mediate (9)
7 Appropriate fraud will (8)
8 Responding to pressure and giving up (8)
11 Load of students going to the ball (4)
15 "O! to be an actor" could give cocktail party relish (5,4)
17 The one totally in charge about to change sides under car (8)
18 Transported in city area still (8)
20 Row one leaves to work one's way forward (4)
21 Disturbingly roped in to get a weapon (7)
22 The goddesses' violent passions (6)
23 Be a man to relate to (4,2)
26 Half of each vessel is for milk (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 29.

The last chance to rescue socialist practice fails

" **"**

John Lloyd on the Soviet collapse

Perestroika had two original aims. First and most important, it was to ensure that the Soviet Union reached the third millennium as a superpower. Second, it was to ensure the survival – and, indeed, the renaissance – of socialism. It has, of course, done neither.

Perestroika, which whimpered to its demise somewhere amid the visions and revisions of a future economic order over this past year, has been coterminous with the end of any hope that the Soviet Union can retain even the trappings of superpotency. Its death has also struck down – as far as can be judged, fatally – any hopes that it was possible to sustain a world economic order other than the capitalist one. Lenin's old equation – communism is Soviet power plus the electrification of the whole country – should be replaced with a new one: state socialism minus repression equals chaos.

We already live with the results of the collapse. Nothing that the big western powers – the US in particular – wish to see happen on the world stage meets more than a short and modest rearguard action from the Soviet Union. For the first time in history, the US is a power which meets no serious international check. It can define its invasion of Panama as righteous and Iraq's invasion of Kuwait as intolerable. The chief institutional inhibitor of its unrestricted action in the world is the US's own internal and vigorous democracy, coupled with its anti-imperialist instincts.

The collapse of the Soviet efforts to find a "third way" between state socialism and capitalism – lessons which have already been learned and digested in eastern Europe – brings to an end not just the epoch which began in 1917, but that which began in the mid-19th century with the various groups of Marxist, utopian, ethical, administrative and anarchistic socialists who produced both an analysis and a moral indictment of capitalism.

Gorbachev's project was a last chance to rescue socialist practice and hold it before the world as a better way to live. Henceforth, a genuinely socialist argument (as distinct from a social democratic one) will be fatally weakened by a riposte which points out the failure of the real thing, both in its original and reformed models.

We thus stand at the end of the first chapter of the new Soviet Union. That chapter might have been called "Resurrection?", and it has ended with a negative answer. What will the rest of the narrative bring?

The end of empire? Yes – but that has actually already happened. Now the process is much more complex: a chaotic mish-mash of competing loyalties and divisions across a union which has rather effectively mixed up its peoples so that the national liberation of one is the oppression of others within new boundaries. This is already evident within the three Baltic states – and they are the simplest republics of the union to unpick from the rest. So intertwined, for example, are the Ukraine and the Ukrainians with the Russians that it is doubtful if the much-touted breakaway of this nation of 50m can happen.

The beginning of a market economy? Yes, since there is nowhere else to go. But the plan by Stanislav Shatalin for the 500 days which will shake the USSR to its core is akin to those characters beloved of cartoon films, which run over a cliff and, through the magic of animation, continue to run for a second or two, until gravity exerts its pull. It is a plan for the ending of every relationship, every deal, every reflex which has been in place for the past seven decades and more: and not just "in place", but hammered and forged and twisted into place. No one knows anything else, except in theory. The people who believe in the market are little groups of liberals in Moscow, Leningrad and the republics' capitals.

Ignorance is not the only, perhaps not even the main problem. Co-operatives – the small experiment with semi-private enterprise which has so far been permitted – have received a vastly hostile reception. Indeed, as the legislation to prepare for the new reforms is now being drafted, regulations are slotting into place to limit the scope of their markets and activities. The Soviet Union is a nation in which most of the people have always hated markets and trading and individual betterment. Now that there are no effective communists left to blame for the suppression of initiative, will the people allow it to emerge?

We have seen, for the past five and a half years, a most brilliant display: a Soviet leadership prepared to reduce its state and its ideology to bare bones. The post-imperialist British leaders were not so bold or so precipitate. They preferred to hang on to, certainly to spout, the rhetoric of grandeur without its substance for years.

In doing what he has done, Gorbachev has received the adulation of the West and the increasing hatred of his own people. We will now see if that hatred can be contained, and the energies harnessed to build, for the first time, a normal state.

FINANCIAL TIMES SURVEY

●Politics: opposition Free Democrats in search of a new role, Page 3

HUNGARY

●Privatisation: political vacillation and distrust of outsiders, Page 5

SECTION III

Monday September 17 1990

After Hungary's first free elections in more than 40 years, Prime Minister Jozsef Antall's centre-right coalition government is grappling with the legacies of communism and attempting to fashion a strong civil society. **Judy Dempsey** assesses its record

The politics of change

THE MOST spectacular development which has occurred in Hungary since its first free elections last April is that it has produced a spectacularly uncharismatic leadership. There are no towering, unpredictable figures such as Poland's Mr Lech Walesa, no denim-clad artists of the kind that surround Czechoslovakia's President Vaclav Havel, and few signs of the instability that has plagued Romanian President Ion Iliescu's attempts to build democratic institutions.

Throughout the late 1970s and 1980s, Hungary was often regarded as "different", or "special", compared to other Warsaw Pact countries. Some credit for that is due to the ousted Communist Party, led by the late Mr Janos Kadar from 1956 until his resignation in 1988, and which had tinkered with economic reform as far back as 1968, in the form of the New Economic Mechanism.

Cautiously at first, then more forcefully, economists and academics could air their views in the institutes or in other circles. Some, such as Mr Peter Akos Bod, the Minister of Industry, are in the present Government which is led by Mr Jozsef Antall's conservative Hungarian Democratic Forum. Others, including Mr Marton Tardos, the much-respected reformer, are advisers to the Alliance of Free Democrats, the main opposition party.

The old regime also helped to undermine the debilitating effects of an increasingly outdated foreign policy enunciated with unremitting regularity and unanimity by the Warsaw Pact. As Mr Mikhail Gorbachev, the Soviet leader, consolidated his position at home, the Hungarian leadership gained confidence to puncture the monolithic-style foreign policy. Whether at the Conference on Security and Co-operation in Europe or the Vienna negotiations on conventional forces reductions, Hungary stood out as a country willing to take risks to protect its interests.

The decision to allow thousands of East Germans to cross from Hungary into neighbouring Austria last September confirmed just how far this small central European state was ready to go. After the East Germans were allowed to leave Hungary, the communist systems of East Germany, Czechoslovakia, Bulgaria and Romania toppled like the bricks of the Berlin Wall.

But when ideological interests could no longer be sustained against growing pressure at home for political reform, Hungary's increasingly divided Communist Party was forced to cede ground by voting itself out of office. There was no popular revolution; there was no palace coup. There were simply elections.

In April, after the second round of polling, the conservative Hungarian Democratic Forum formed a coalition with the small right-wing parties. It then set out to consolidate its position and undo 40 years of Communist rule. The politics of transformation had begun.

The task of reshaping the social, political and economic systems into a strong civil society is daunting.

Prime Minister Jozsef Antall's Government inherited an $18bn hard currency debt, a large, unproductive and heavily subsidised state sector and 20 per cent inflation. It also inherited an appalling housing policy, a run-down health system, a polluted environment and an exhausted, over-worked population.

The Government must also cope with the ever-increasing number of poor people. More than 5 per cent of the population live below the minimum subsistence level, which is officially set at Ft6,000 ($85) a month. To tackle these problems, the Government requires consensus and foreign capital. The flow of foreign capital is conditional upon Hungary's plans for privatisation.

The Forum's attitude towards privatisation reflects Mr Antall's own temperament: cautious. Such caution seems out of place with the Hungarian character, and certainly with that of the Free Democrats, who want the sell-off programme speeded up, even if that entails shock treatment.

But the electorate voted for a conservative, quasi-paternalist party whose policies would not create upheaval and which would protect Hungary's interests and wealth.

The public mandate and the various strands within the party have shaped the debate on privatisation. There are those who cringe at the idea that Hungary would be sold out to foreigners. Attempts last year by the then ruling Hungarian Socialist (former Communist) Party to initiate some privatisation measures helped to fuel these fears.

Forum economists argue that lack of accountability allowed Communist managers to turn their enterprises into joint-stock companies and undersell them to outsiders while feathering their own nests.

Then, there are those economists who want a gradual process, which entails drawing up a list of enterprises earmarked for public sale and which might even be improved before being sold: a time-consuming and expensive option.

The most pragmatic favour a combination of all these and other options, as long as privatisation gets under way.

These arguments reflect the traditions of the interwar years, which the Forum has inherited. But investors are becoming impatient. Recent criticisms from western economists, investors and the World Bank accuse the Government of dithering over privatisation and showing a reluctance to initiate bankruptcy proceedings against loss-making enterprises. Perhaps the first 100 days of caution might cede to a second 100 days of risk-taking.

Some risks will have to be taken. The Gulf crisis, the cutback in Soviet energy imports, inflation and falling industrial productivity mean that the pace of change must be speeded up. To pay for alternative sources of energy, the Government must increase export competitiveness. That will require a thorough shake-out of the inefficient sectors of the economy, even if it means more unemployment. The Forum's populist wing, which at the moment seems on the wane, will need convincing of the merits of such policies.

In this context, the Forum will have to spell out its ideological position. Is it a western-style conservative party committed to privatisation and rolling back the frontiers of the State? Or is it neo-corporatist, aiming to build consensus (at the expense of unpopular decisions) and committed to strengthening its influence through the institutional mechanisms of the State?

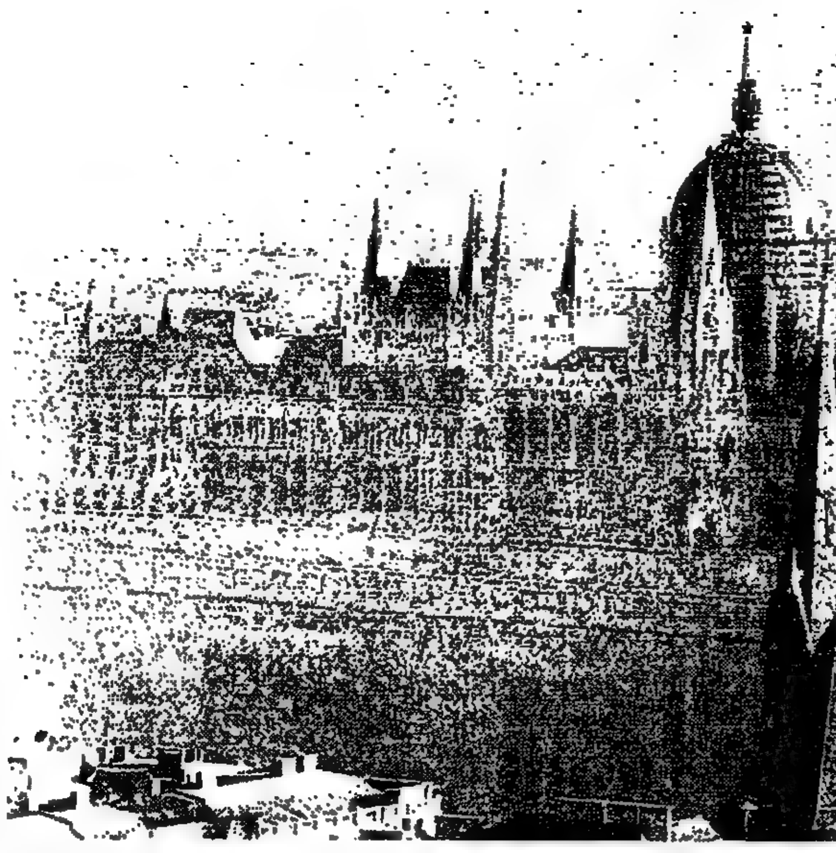
Prime Minister Antall seems increasingly aware of the need to reconcile these economic imperatives with the need to maintain consensus. But the two may be irreconcilable.

His fear (exaggerated, say his critics) of rapid change and possible upheaval that may accompany it, is conditioned by what appears to be his, and other Hungarians', almost pathological fear of instability. This partly explains the Forum's caution.

It also partly explains, but does not vindicate, attempts by the Forum during the summer to organise its own civilian guard, similar to the former Communist Workers' Militia. That was when the Forum's leadership showed its more vulnerable side. It denied all responsibility for the idea, blaming the affair on a concierge who just happened to send out detailed instructions to all local party branches!

More sympathetic observers would put the Government's first 100 days down to inexperience. If so, perhaps western expectations are too high.

The Government prefers the backstage to implement the politics of transformation. It may be that as it strengthens its democratic institutions, Hungary will become dull, almost boring. Hungarians see it differently. "We are becoming normal," they say. "That is all we want. . ."



February: the politics of transformation begin as workmen remove the red star from the spire of the Parliament Building, Budapest. The Communists, however, bequeathed more than architectural adornments to Hungary's first democratically-elected government for more than four decades. The new coalition, led by the Hungarian Democratic Forum, has inherited a hard currency debt of more than $20bn, an inflation rate of 27 per cent and rising, and a decline in living standards

IN THIS SURVEY

Editorial Production: Andrew Slade

Is the economy ready for wide-ranging liberalisation ? **Nicholas Denton** reports

On the brink of transformation

MANY Hungarian employees live a Jekyll-and-Hyde existence: they work apathetically during the day in their official jobs, saving energy for more entrepreneurial activity in the second economy after hours. Their lives serve well as a caricature of Hungary's economy.

They – and Hungary – have one foot in each of two economies: one in the vigorous new economy of joint ventures, KFTs (private limited companies) and the steadily greying black economy, oriented to opening western markets and the flood of tourists; the other, a world apart, in the official economy of large State-owned enterprises, brought to its knees by the collapse of trade with other east European countries and already in deep recession.

Hungary is on the cusp between the two. That is not to say that the embryonic market economy and the remnants of the bureaucratic economy are in any sense balanced. They are not: OECD statistics put the share of the private sector at 15 per cent of GDP, not much, albeit the highest proportion in eastern Europe.

Nor is there a significant debate about the direction Hungary should take: the goal of a market economy, tempered by an effective social welfare system, is hardly questioned.

But Hungary and the Hungarian Government are very *much divided between those* who argue for a managed diminution of the State sector and those who feel that the private sector is sufficiently resilient to allow for a "big bang." This would entail wage, price, and import liberalisation and tight control of the budget, which together would control the resulting inflationary pressures. This could bring convertibility closer.

Hungary's confusing economic statistics give much room for different interpreta*tions of the country's economic* health.

Industrial production this year looks likely to be 10 per cent below that of last year, pointing to a sharp recession in the State sector and compounding years of stagnant output. But estimates of consumption indicate that the economy will contract by only 1-2 per cent this year.

Industrial production figures *may be meaningless* because they only cover larger enterprises at a time when these are being split up and when growth is concentrated in smaller firms and the grey economy. Employment pres*ents the same picture: decline* in the large company State sector, although unemployment is still only around 1 per cent of the workforce.

An important factor behind the slump in industrial output is the collapse of east European markets for Hungarian goods. *Exports denominated in* roubles are running 30 per cent down, and imports 20 per cent down, on last year's levels.

But exports in convertible currency, mainly to the west, are about 15 per cent up on last year, and income from tourism is about 80 per cent higher, giving Hungary a $200m hard currency current account surplus in the first half of 1990, a remarkable improvement of about 4 per cent of GDP on the same period of 1989. This demonstrates a surprising flexibil-

Confusing statistics give much room for different interpretations

ity on the part of companies *who have redirected deliveries* from eastern markets to the West.

Hungary needs to achieve a hard currency current account balance to contain a foreign debt of $20bn – the highest per capita in eastern Europe. Financial stability is fragile. Despite Hungary's healthy hard currency current account this year and sophisticated management of debt by the Hungarian National Bank, western banks withdrew $800m in short-term deposits in the spring, bringing the reserves down to crisis levels of $1bn.

Hungary survived the trauma only through political *pressure on the banks to* return their money, a $200m bridging loan from the Bank for International Settlements, the doubling of domestic hard currency deposits to $650m over the last three months and the unexpectedly healthy current account.

Inflation, at 27 per cent and rising, is another preoccupying worry. The Government's tight monetary policy is undermined by the intractable problem of "queuing-up": cascading nonpayment of bills by insolvent companies. When economists and officials are feeling particularly gloomy, they cheer themselves up with comparisons with other east European *countries, for Hungary does* not have the monetary overhang of Czechoslovakia, Romania, Bulgaria and the USSR.

Inflation is at 27 per cent and rising, but hyperinflation has been avoided

On the other hand, it has so far avoided hyperinflation, unlike Poland and Yugoslavia. Economic output has probably been more resilient than in *other east European countries* this year.

Hungary has been better able to hold onto western markets than its neighbours: OECD figures show that Hungary lost only 8 per cent of its share of OECD markets between 1979-88, a far better performance that any other east European country. In terms of legislation for foreign investment and the amount, Hungary is years ahead of Poland and Czechoslovakia.

The contrasts have led one economist to describe the Hungarian economy as "the one-eyed king," eastern Europe being the land of the blind. Opinion and Government ministers divide between those who see the economy as half-sighted and those who see it as half-blind.

Mr Kadar describes this divide of opinion as one between "institutionalists and structuralists," between "monetarists and realists" and, more prosaically, between "radicals and those who would not like to turn everything upside down."

The starting point for the minister is that for the next *few years, the State sector* will be central to the economy and that it has to be managed, rather than left to the free play of market forces. Macroeconomic stabilisation has to wait for more extensive privatisation, which will take time.

Mr Kadar sees no point in applying *Polish-style* macroeconomic stabilisation to an economy as rigid as Hungary's. In his view, it would carry too many dangers: 200 per cent inflation, 30-40 per cent unemployment, a 20-25 per cent drop in production.

But then, the conservatives tend to base their caution in a gloomy evaluation of the econ*omy. Mr Kadar cites the slump* in industrial production and stresses that the private sector is too small for its rapid growth to be able to take up the running. He predicts a 2-4 per cent fall in GDP this year.

"All our statistics are false. The Hungarian economy is far *stronger than we imagined,"* says Mr Gyorgy Matolcsy, a fervent believer in the vitality of the second economy.

"There is a semi-legal economy under the surface and it can substitute for the legal economy. I have to believe in the strength of this process." *Mr Matolcsy's vision is to* rechannel the undeniable entrepreneurial drive of State employees through privatisation. "They do it illegally now. They steal materials and use the company. In future they can buy it, with a loan. They won't have to lie, they won't have to hide."

Mr Kadar and Mr Matolcsy, and the factions they represent, come to the central issue of economic policy from very distant starting points. In crude terms, the question *is*: "Big Bang" or not?

Hungary's economic problems are a "Gordian knot," says Professor Janos Kornai, whose book The Road to a Free Economy makes the most complete intellectual case for a "Big Bang": a comprehensive and simultaneous liberalisation of the economy.

In the worst case, the economy will 'muddle through' as it has for years

Professor Kornai stresses the interdependence of economic measures. "You cannot successfully privatise without stabilisation, you cannot stabilise the economy without a certain minimum privatisation," he says. "There is a critical mass (of measures): do less and you go back to gradualism."

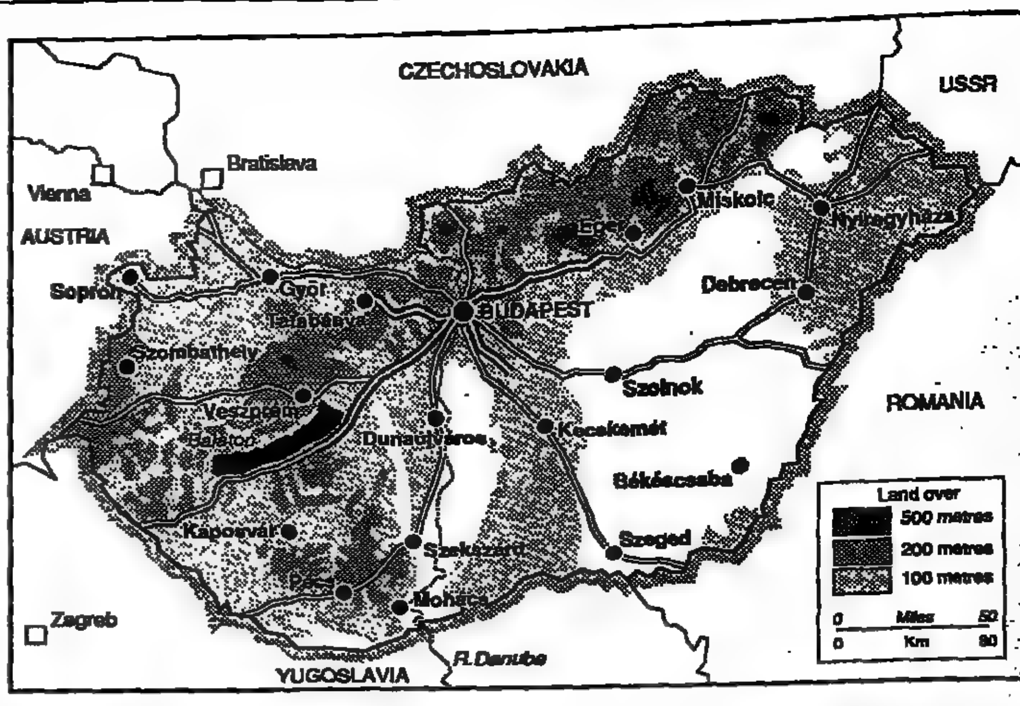
Already the debate is heating up. Mr Matolcsy promises an acceleration of privatisation. The Finance Ministry has prepared a package plan for the new year involving Ft80bn of subsidy cuts, to complement Hungary's tight monetary policy (interest rates are more than 30 per cent) with a tightening of fiscal policy and allow *a further liberalisation of* prices.

Mr Kadar makes a thinly veiled attack on this approach. "Economic policy is not enlightened enough to know that in times of recession an anti-cyclical policy is necessary. . . the Hungarian econ*omy cannot be managed by* monetary policy."

On the issue of convertibility, the litmus test of macroeconomic radicalism, the two sides are far apart. "We are pushed, forced towards convertibility during next year," Mr Matolcsy stresses. His *views contrast sharply with* those of Mr Kadar who, before he became a *Minister*, saw "no economic evidence for the ben*eficial effects of convertibility.*" Now he speaks of the move taking two to three years.

Even if the Government avoids the messy compromise which most observers predict, it might even be too late for a bold move. "I feel that the most dramatic moment has been missed," *Mr Kornai says*, referring to the debilitating delay since the Government took office in May.

"It is *one thing* to make all necessary preparations; another to rationalise cowardice." But Mr Kornai does not fear an apocalypse. In the worst case, the economy will "muddle through" as it has for many years. It is operating so far below its potential that, in the *long term, the only way it* can go is up.



KEY FACTS

Area	93,030 sq km
Population	10.57 million
Head of State	President Arpad Göncz
Currency	Forint = 100 filler
Average Exch Rate	1989 $1 = Ft59.01
	September 1990 $1 = Ft63.42

ECONOMY

	1988	1989
Total GDP (US$bn)	28.0	28.0
Real GDP growth (%)	0.4	-1.5
GDP per capita (US$)	2643	2645
Components of GDP (%)		
Private Consumption	61.0	
Other§	21.1	
Increase in Stocks	3.8	n.a.
Government Consumption	11.3	
Exports	37.6	
Imports	-34.8	
Origin of GDP by sector (%)		
Agriculture	20.4	
Manufacturing and construction	43.1	n.a.
Services	36.5	
Current Account Balance (US$bn)*	-0.59	-1.44
Exports (US$bn)*	5.79	6.45
Imports (US$bn)*	5.12	5.91
Trade Balance (US$bn)*	0.67	0.54
Main Trading Partners (% of total value)		
Exports		
USSR	27.6	25.1
West Germany	11.0	12.0
Austria	5.7	6.5
EC	22.7	24.3
Imports		
USSR	25.0	22.1
West Germany	13.9	16.1
Austria	7.2	8.6
EC	25.4	29.0
Gross external debt (US$bn)*	19.6	20.6
Consumer prices (% change pa)	15.7	17.0
Total reserves minus gold (US$bn)*	1.8	1.7
Discount Rate (%,end period)	10.5	10.5
Dependency ratio*	42.8	42.7

§Gross Fixed Capital Formation
* in convertible currencies only
* % of Population under 15 and over 65
Source: IMF, Datastream, Economist Intelligence Unit.

ECONOMIC POLICY-MAKERS

Intimate network

HUNGARY'S post-communist economic policy-making establishment has the intimacy of a university senior common room. This might have been expected: the leading figures come from a close network of academics who worked on the margins of Government and have known each other for decades. They have more in common with each other than with the parties they have attached themselves to.

As Director of the State Planning Institute, Mr Bela Kadar, now Minister of International Economic Relations, sheltered his subordinate Mr Peter Akos Bod, now Minister of Industry, *while the latter worked on the* Hungarian Democratic Forum's economic policy. The couple form the more cautious wing of the Government.

Mr Kadar is the intellectual heavyweight of the two, while Mr Bod's charm comes across in interviews and on television. Mr Bod, incidentally, once co-authored a paper with Mr Miklos Nemeth, the former Socialist Prime Minister.

Mr Ferenc Rabar, Minister of Finance, taught at the Budapest University of Economics and represents the Cabinet's radical wing. The Cabinet rules give him precedence over his *ministerial rivals and he is* backed by Mr Gyorgy Von-O'svath, a Hungarian emigré and influential adviser to the Prime Minister.

But the Finance Ministry is regarded as weak and Mr Rabar *complains privately that* Mr Gyorgy Matolcsy usurps his role. The two men are nevertheless allies in promoting a radical economic reform package. However, Mr Matolcsy, the 36-year-old State Secretary for Economic Policy at the Prime Minister's office has power which goes far beyond his official title.

The leading figures come from a close circle of academics

Mr Matolcsy's access to the *Prime Minister*, his role as co-ordinator of economic policy and his energy make him central and in some ways more powerful than the cabinet ministers. His breeding ground is that of many radical young economists, the Financial *Research Company, where he* worked under the then-director, Mr Marton Tardos.

Mr Tardos, one of Hungary's cleverest and best-known radical economists, is a shadow minister of the opposition Alli*ance of Free Democrats. Mr* Tardos's colleague, Mr Karoly Attila Soos, is close to Mr Gyorgy Suranyi, the new President of the Hungarian National Bank, and Mr Lajos Bokros, the first President of the Stock Exchange Council. These two, both in their thirties, co-au*thors of a book, and both of the* Financial Research School, are described by a *former tutor* as "like brothers."

Not that the economic establishment is exceptional: Mr Geza Jeszenszky, formerly Dean of the Budapest University of Economics, is married to the niece of a fellow historian, Prime Minister Mr Jozsef Antall, whose mother lived with the couple.

Nicholas Denton

Judy Dempsey analyses the political landscape after the first free elections for 45 years

Coming to terms with democracy

THE marriage between the governing Hungarian Democratic Forum and the opposition Alliance of Free Democrats in Parliament is all but over.

The *honeymoon* period was good while it lasted. But the Free Democrats, who are now searching desperately for a political and ideological role, reckon their pact with the Forum has outlived its usefulness, and that it is time to become a *real opposition*.

It would have been difficult to forecast such a marriage before the two rounds of parliamentary elections which were held in March and April.

These two big parties, each anxious to form the government, spent most of the time slinging mud at each other.

But on a deeper level, both parties represented the historical cleavage in Hungarian society.

The origins of that cleavage *go back to the period* between the two world wars when Hungary, traumatised and disoriented, was licking its wounds following the Treaty of Trianon. That treaty stripped the country of two-thirds of its territory and created massive social instability.

A left-wing coup staged by Bela Kun in 1919 gave way to a nationalist, *right-wing regime* which provided a fertile breeding ground for the fascist Arrow Cross movement in the late 1930s.

During those two turbulent decades, a group of intellectuals, mostly Jewish who lived in Budapest, founded the Nyugat (West) journal. Essentially, the journal provided a platform for debate. More importantly, it persistently argued that Hungary's roots were deeply embedded in the western bourgeois tradition.

Outside Budapest, the populists, roughly equivalent to *Russia's Narodna i Volgya* movement, were more inspired by Hungary's cultural traditions and held a rather nostalgic and romantic view of the peasantry. The populists, led by the poet, Gyula Illyes, also tended to see Hungarian society divided between the "urbanists" – the Budapest-based intellectuals – and those other professions, school teachers, lawyers and doctors living in the provinces.

This "divide" transmitted *itself into ideology* as well. While the "urbanists" were social democratic, pro-western and liberal in outlook, the "populists" were right of centre, somewhat ambiguous towards the west, and nationalist.

It is too much of an exaggeration to argue that this cleavage is today precisely reflected *or symbolised by the Forum* and the Free Democrats.

True, what is taking place in Hungary and indeed in all of eastern Europe is not the discontinuity of the Communist past, but the continuity of the interwar period. However, the effects on social values after 40 years of Communist rule, the impact of forced modernisation, rapid industrialisation and the attendant social upheaval cannot be ignored.

These issues, Hungary's interwar experiences, its all too brief experiment in democracy after 1945, and Commu*nist rule, provide the legacy* which Hungary's newly-elected democratic Parliament has inherited. Against this background, a marriage between the Forum and the Free Democrats was the only means to contain the pre-election bickering and get parliamentary democracy on the road.

The pact was signed on April 29. In exchange for their agreement to a detailed set of constitutional changes, which restrict the required two-thirds parliamentary majority to 20 bills, the Free Democrats were given the Presidency (Mr Arpad Göncz, a respected writer with whom Mr Jozsef Antall, the Prime Minister could work) with expanded powers; guarantees that the media would be independent; and the status of the "official opposition."

Both sides won something. More importantly, it gave Parliament a chance to settle in. However, the pact, always seen as a short-term experiment, is now coming to an end. A Government is in place, a President has been installed, and now the Free Democrats must find their true role as an opposition party.

It will not be easy. Over the past few weeks, FIDESZ, the Alliance of Young Democrats, have shown itself to be a lively and articulate opposition in Parliament. In addition, the Young Democrats are popular outside the debating chamber. Because they are young, do not have power, and have few hang-ups about the past, they have provided a breath of fresh air to the stodgy, deeply serious debating style and arguments of the Forum and Free Democrats.

Moreover, FIDESZ, unlike the Forum, is not obsessed about its public image, either at home or abroad. Unlike the Free Democrats, they know how to communicate with ordinary people.

The Free Democrats' greatest drawback is that they have yet to find their place in the political spectrum. While the liberal wing shies away from the party donning what should be its true mantle – a social democratic party – the social democrats in the party still feel that "socialist" or "left-wing" politics will alienate the electorate because such labels were so abused under the Communists.

But in the present political set-up, the working class has no party to represent its interests. The trades union movement, itself in turmoil, should have found a natural ally in the Free Democrats. "The Free Democrats have to find their true role. We need a partner on the side of labour. They must accept that five million people are outside the political arena. They need representation," says Mr Elemer Hankiss, the recently-appointed head of Hungarian television. Indeed, it would not be surprising if, in the next few years, the Hungarian Socialist (formerly Communist) Party was completely revamped in such a way that they might become attractive partners for the left-wing of the Free Democrats.

The Democratic Forum is in a more privileged position, in that it can hold the party together precisely because they it is in power and therefore able to grant political favours. Nevertheless, Mr Antall has to contend with three different wings in the party.

The first is the centre/liberal wing, which Mr Antall represents but which is not the dominant force in the party. The second, the populist/nationalist wing, is led by the writers, Mr Istvan Csurka and Mr Denes Csengey, who appear to spend a great deal of time pondering the fate of the *Hungarian* verb. The third, Christian wing is neo-corporatist, ultra-conservative and wants religious instruction introduced in all schools.

Mr Antall, himself a cautious, aloof, former school teacher, seems able to keep a firm hand on the party. But his critics say he is too slow in disassociating himself from the party's nationalist wing which seems intent on cultivating an inward-looking Hungary, bred on folklore, literature and resentment of the Treaty of Trianon.

Mr Antall's more sympathetic supporters say he is learning on the job. Give him time, they plea. "Nobody has tried to create a democratic society after a despotic and tyrannical Communist rule," says Mr Antall.

SEATS IN THE NATIONAL ASSEMBLY

Party	Total Seats	% of Vote
Hungarian Democratic Forum	164	42.29
Alliance of Free Democrats	92	23.83
Independent Smallholders Party	44	11.40
Hungarian Socialist Party	33	8.55
Alliance of Young Democrats	21	5.44
Christian Democratic Party	21	5.44
Agrarian Alliance	1	0.26

Source: *Magyar Hirlap*, April 10, 1990

October 7 1989: Delegates to the Hungarian Communist Party convention vote to dissolve the party and replace it with the democratic Hungarian Socialist Party

Countdown to Power

1986: October
Political inertia and economic decline force a group of academics into drawing up a radical paper entitled "Change and Reform". It is supported by Communist reformer Mr Imre Pozsgay and heralds the breakdown in consensus both inside and outside the party.

1987: September
A meeting of writers and reforms meet in the town of Lakitelek, east of Budapest. The Hungarian Democratic Forum is launched.

1988: May
Mr Janos Kadar, Communist Party leader since 1956, is ousted. Mr Karoly Grosz is appointed in an effort to unite the party, but Mr Pozsgay wants faster change.

1988: Autumn
Demands for political change increase. The authorities prepare a draft law on associations aimed at legalising political parties.

1989: January
The pace of change accelerates. Mr Pozsgay announces to the world that the 1956 "counter-revolution" was in fact a "popular uprising".

The great taboo is broken. In one sentence, the Communists and the Soviet Union are publicly discredited for suppressing 1956.

1989: May
Mr Imre Nagy, the Hungarian Prime Minister who was executed for his part in the 1956 rising, is reburied; Hungarians regain their past.

1989: October 23
Thirty-one years after the outbreak of the 1956 uprising, the Hungarian Republic is *declared. Hungarians, seeped* in emotion, pull the red star out of the tricolour. They are on the path to independence.

1990: March 25
Hungarians go to the polls to freely elect, for the first time in over five decades, an independent Parliament.

1990: April 8
The Hungarian Democratic Forum wins enough votes to form the new Government. Mr Jozsef Antall, the Prime Minister designate, starts forming a coalition with the small right-wing parties.

1990: May 2
Mr Arpad Göncz, a writer and supporter of the liberal Alliance of Free Democrats, the largest of the opposition parties, is chosen as President.

1990: June 29
The Government unveils an austerity package to satisfy the International Monetary Fund's conditions on the budget deficit on which new credits are dependent.

March 25 1990: voting begins in Hungary's first free election for 45 years

Hungary must now address relations with its neighbours, writes **Judy Dempsey**

Finding a new foreign policy

ON A SUNDAY evening, one year ago this month, Mr Gyula Horn, the then Hungarian foreign minister, appeared on television. This quiet-spoken career diplomat and skilful politician hardly raised his voice in an announcement which was to have far-reaching consequences for eastern Europe.

He said that his Government had decided to allow thousands of East Germans to cross freely into Austria. Minutes later, the border crossing into Austria at Hegyeshalom was thrown open. To see the joy of young East Germans popping open bottles of Russian champagne, pushing their two-stroke Trabant cars to the west, and embracing each other, was an unforgettable and moving experience.

By refusing to send the East Germans back home and by allowing them to go to the west, Hungary provided a route around the Berlin Wall. In doing so, Hungary precipitated the revolutions of eastern Europe.

On reflection, Hungary's decision was rooted in the way it had conducted foreign policy. For years, a small group of people attached to the Communist Party's Central Committee's foreign policy department had been chipping away at the monolithic and monotonous way in which all foreign policy decisions had been directed from Moscow.

Although few deign to mention his name, Mr Janos Kadar, the Communist Party leader from 1956 to 1988, gave young officials a certain leeway to test Moscow's willingness in allowing Hungary carve out its own identity on certain issues, especially on human rights.

More particularly, the Hungarians used the pan-European Conference on Security and Co-operation in Europe (CSCE) to puncture repeatedly the sacred cow of eastern Europe's predictable unanimity on foreign policy issues.

In fact, the CSCE became a legitimising basis upon which Hungary's foreign policy was based.

Pragmatism also played a role. Hungarian foreign ministry officials, even before the Communists were ousted from power last April, agreed that breaking relations with Israel after the 1967 Six-Day War had been a mistake. Thus, in autumn 1987, Hungary became the first East European country to start re-establishing diplomatic relations with Israel. Establishing relations with South Korea, once regarded as the capitalist scourge of eastern Europe, soon followed.

The Hungarians made no bones about the direction of this side of its foreign policy: trade and economic contacts were just as important as breaking out of the stranglehold of Soviet foreign policy decision-making.

That legacy may appear a daunting one for Mr Geza Jeszenszky, *the new Foreign Minister*. His ministry has to come to terms with the situation that compared to even six months ago, post-communist Hungary is no longer special and thus no longer singled out by the international community for its decision. Hungary is becoming normal, and its foreign policy must reflect that situation.

But Mr Jeszenszky and his foreign ministry colleagues reckon that behind the facade of normality of the new eastern Europe, lurk old antagonisms and ethnic disputes which had remained taboo under communism, but which are now being revived. Hungary must now address issues much closer to home: its relations with its neighbours.

The common thread influencing Hungary's foreign policy with its neighbours, is the future status of the ethnic Hungarian minority in Transylvania, Romania and in Slovakia.

Some critics suggest that the Hungarian Democratic Forum, the Conservative-led coalition Government, is obsessed to the point of hysteria about this issue; that the political antenna of Mr Jozsef Antall, the Hungarian Prime Minister, are not sensitive enough to understand that when he says he is the spiritual leader of 15 million Hungarians, his critics, especially his Romanian counterparts, interpret this as a challenge by Hungary to revive old territorial claims.

Such misinterpreted statements, mutual suspicion and mistrust are the hallmarks of the present relationship between Hungary and Romania.

Bucharest and Budapest revelled in the euphoria following the toppling of the Ceausescu regime last December – Bucharest, because Romania would now be welcomed back into the fold of the international community; Budapest, because it hoped it could make a fresh start in relations with Romania and in particular, that the future status of the ethnic Hungarian minority which lives in Romanian's northern region of Transylvania, could be settled amicably.

The hopes on both sides were high, which Mr Horn, who was the first Foreign Minister to visit Bucharest days after the revolution, did not conceal. There, the ruling National Salvation Front,

Hungary precipitated the revolutions of eastern Europe

which was catapulted into power, promised to restore the Hungarian language university in Cluj, or Kolozsvar as it is known to the Hungarians. The NSF also promised to re-open the Hungarian consulate in Cluj, which Ceausescu had ordered closed.

But the euphoria has turned stale. Following frightening ethnic violence between Hungarians and Romanians in Transylvania last March, relations between the two countries have been filled with recrimination. Mr Jeszenszky went so far as to say that the NSF was adopting old Ceausescu/Communist tactics by deploying the nationalist card to whip up resentment against the ethnic Hungarian minority.

Since then a bitter, microphone diplomacy has replaced serious talks to restore a modus vivendi between the two countries.

A depressing war of words has stolen the euphoria of the Revolution. Relations between both countries are now at rock bottom.

What is at issue?

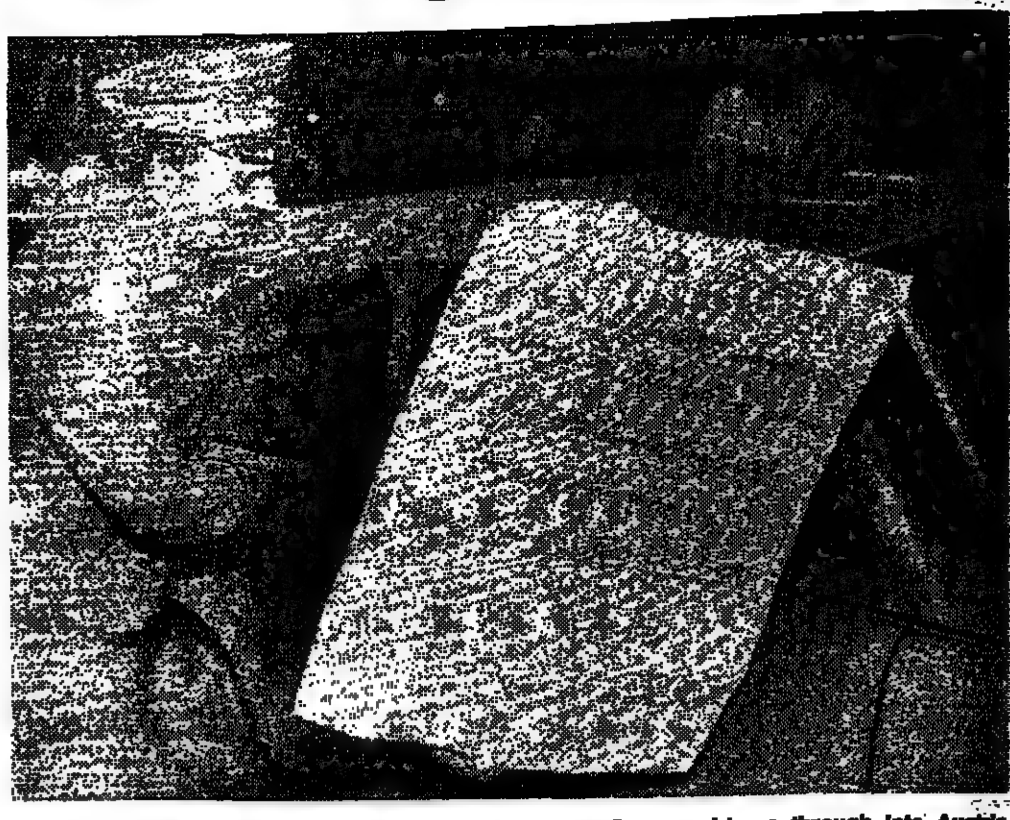
Romanian officials say the Hungarians are waging a propaganda campaign against their country, to the extent that they want to redraw the borders and perhaps even reclaim Transylvania. This is a fanciful idea. Any change in post-war eastern European borders would have far-reaching consequences for the rest of the region – and indeed for Europe, as Romania and Hungary both fully realise. What Hungary wants, according to Mr Jeszenszky, is "is respect for the minority's ethnic rights."

Hungary wants similar rights extended to the 600,000-strong ethnic minority in neighbouring Slovakia. But the situation is even more complex. For in Slovakia, often regarded as Bohemia's and Moravia's poor peasant cousin, nationalists have increased their calls for an independent state separate from Prague. So far, the federal government has responded by drawing up a plan aimed at establishing a loose confederal structure. But if the momentum for Slovak independence increases, the Hungarian authorities ask what place the 600,000 ethnic Hungarian minority would have in this new arrangement.

Relations with Yugoslavia are influenced also by the treatment of the small Hungarian minority in the province of Vojvodina, which is now ruled directly from Belgrade. Until recently, Budapest had no quarrels with Yugoslavia over the question of ethnic and minority rights. But since the rise to power of Mr Slobodan *Milosevic, the President of* Serbia, the Hungarian Foreign Ministry has been concerned that the ethnic and cultural rights of the minorities in Vojvodina will be curtailed.

One way in which the Hungarians believe ethnic disputes and closer ties with its neighbours can be improved is through bringing together the countries of the region under one broad umbrella. The Pentagonale, an Italian initiative involving Poland, Czechoslovakia, Hungary, Italy and some of the republics of Yugoslavia, aims at improving such relations by co-operating on transport, environment, and other trans-border problems.

The Hungarians believe the CSCE can also play a greater role in resolving disputes within Europe. And if anyone is sceptical that old antagonisms or disputes continue in eastern Europe, the Hungarians will quickly dispel them of any such illusions.



September 1989: Hungarian border guard waves East German drivers through into Austria. Below: anti-Romanian march, Budapest. Relations between Hungary and Romania are strained

Political vacillation and difficulties in valuation are the main problems, writes **Nicholas Denton**

Privatisation programme under pressure

TO DEMONSTRATE the enormity of the task before them, Hungarian officials are fond of pointing out that at Britain's rate of privatisation – 5 per cent of Gross Domestic Product over 10 years – it would take Hungary more than a century to reduce state control of the economy to the desired Western levels. Hungary does not have that long.

As the Polish *example* has shown, stabilisation of the economy is painful. The Government aims to reduce the share of the state sector from 90 per cent to 40 per cent of GDP by 1995.

But privatisation is hardly taking off in Hungary. By the end of last year, more than Ft100bn had been transformed into shares, a pittance when one considers that State property has a book value *of* Ft2500bn.

In addition, many of the new shareowners are themselves

A distrust of foreign investors and big business is implicit

state companies. The closest thing to real privatisation of large companies has been the transfer of assets to joint ventures or the taking on board of a direct foreign stake. Even this involves the dilution of State property rather than outright sale.

One reason for pessimism is that the urgency of privatisation conflicts with political *imperatives*.

It is a dilemma that particularly afflicts the present conservative Government and introduces a dangerous ambivalence to policy, in the face of which the Government has given every impression of vacillation.

This is because the Hungarian Democratic Forum came to power on a picturesque vision of an egalitarian property-owning society of small businesses, however much that vision was framed by its welcome to foreign investment and a western-style market economy.

Mr Marton Tardos, an economist *to the opposition Alliance* of Free Democrats, characterises such an approach in the following way: "We would like to have private property but only those private owners who sweat with their employees."

A distrust of foreign investors and big business is implicit and often to be heard in Parliament from the Forum. At the end of last month, the opposition criticised the Government's exclusion of foreigners from small retail privatisation as "nationalist", which Forum MPs applauded as if the description were a compliment.

Assembly line of the Ikarus bus factory at Malyasfold. Hungarian officials concede that the privatisation of such ailing giants – Ikarus is on the verge of bankruptcy – will be problematic

However, quick privatisation involves a politically unpalatable role for foreign investors. For Hungarian individuals and the new KFTs (plcs) do not have the capital to buy state assets in bulk and the granting of privatisation credits will play havoc with monetary policy.

Quick privatisation also implies the persistence of what the Hungarians call "spontaneous privatisation," which was anathema to the Forum in this year's election campaign.

In its *pejorative* sense, this means the dilution of State ownership by the introduction of foreign capital, as Communist-appointed SOE (State-owned enterprises) managers try to avoid a Government purge or to enrich themselves.

But spontaneous privatisation can be respectable too, and it is enjoying a revival. The sale of State assets is too bulky to be initiated by the Government alone. Privatisation, to date, has been almost entirely spontaneous and the technique is likely to continue to dominate.

Finally, rapid and extensive privatisation means controversial low prices for state assets. Few companies are in a position to pay little more than fire-sale prices without expensive and time-consuming restructuring.

The sale of State assets is too bulky for the Government to handle alone

Furthermore, the problems in valuing Hungarian companies introduce an added element of risk for the buyer which requires a price discount in compensation.

When obsolete inventories, bad debts and artificially cheap supplies are taken into account, a Hungarian company's theoretical profits often evaporate.

On one side ministers have to respond to the qualms of *their MPs, few of which they* share, and pay lip-service to Forum philosophy.

From the other they are stung by criticism of foreign investors, to which the sophisticated technocrats at the summit of Government are extraordinarily sensitive.

The Government's desire to control privatisation and the supervisory body, the State Property Agency (SPA), has already cost some time.

The bungled replacement of Mr Istvan Tompe by Mr Lajos Csepi as managing director of the SPA set privatisation back two months, according to insiders. The assertion of direct *Government control of the* agency took most of the summer.

Furthermore, ministerial criticism of the flotation in May of Ibusz, the national travel agency, did incalculable damage. It *discredited the SPA*, sparked off a disruptive debate on the nature of privatisation and slowed its momentum.

Foreign investors are already complaining about the delay. Last month Mr Andrew Sarlos, a key figure in the Central European Development Corporation and the First Hungarian Fund, two of the largest investment funds, made a veiled threat to take his money elsewhere.

He complained of the sluggishness of privatisation and the hassle involved in any deal. Mr Sarlos is not alone. Mr Kevin Pakenham, managing director of John Govett, whose Hungarian Investment Company has $100m to invest, gives the Government a deadline: the first quarter of next year. Still, he is hopeful. "The Government is being told by *enough people from enough* angles not to fall into the trap of being over-bureaucratic," he says. "It is too early to be really disconcerted."

"I am pushed on: the Government is pushed on," says Mr Gyorgy Matolcsy, the Government official responsible for privatisation strategy, responding to criticism of delay. "There are no more excuses," he confesses, as he promises *that the plans will become* concrete towards the end of September.

The Government will tackle "the easy part first." The retail privatisation, the first to go before Parliament, presents the fewest ideological problems for the Forum: if small businessmen can prosper anywhere, it will be in this sector.

Then comes the sale of Hungary's blue-chip companies, "the flagships," many based on the model stockmarket flotation of Ibusz, which was the first company to be privatised. A large proportion of the shares will probably be reserved for Hungarian investors.

Mr Matolcsy identifies hotel and pharmaceutical companies as prime candidates. The list of the flagships varies from week to week, a telling demonstration of the Government's vacillation. Mr Matolcsy talks of anything between 20-40 cases. But Chinoin, the pharmaceuticals company, and Hungarhotels, the country's largest hotel chain, are on most versions of *the list*.

With Hungarhotels, the Government is retracing old steps: the sale to Quintus, the Swedish investment firm, of 51.6 per cent of the stock for $150m last December was later cancelled.

Far more problematic will be the privatisation of Hungary's ailing engineering giants, such as Ikarus and Csepel Auto, which produce buses, and Videoton, the electronics company, which are all on the verge of bankruptcy. These fall into Mr Matolcsy's "reorganisation group."

Foreign investors will be given freer rein because these companies need new technology and an overhauled management, and because no sane Hungarian investor would touch them.

The typical solution will be for a foreign investor to become a core but minority shareholder.

One overarching idea is that the Government should set the *terms of reference of a sale*, put the planning out to tender, and appoint the winner lead manager.

In the phrase of Mr Tardos, it should "privatise the privatisation".

There is a growing awareness that this controlled privatisation can be only part of the whole if privatisation is not to take a century.

Foreign investors are already complaining about the delay

Mr Matolcsy talks of a "richer" recipe: "It's a cake which contains three different ingredients."

He envisages that privatisation can be initiated not just by Government, but by State-owned companies themselves or by the prospective buyer.

The second, Mr Matolcsy *admits, is "very similar to the* present spontaneous privatisation programme." The last is innovative. A "raider" can make an approach to the SPA, which handles state assets, with a bid for part or all of its *target*. This would spark an auction, at which a company with longstanding relations with the Hungarian company would be "first in the queue."

None of these methods will be perfect, officials stress. "There will be no ideal and completely flawless cases," says Mr Janos Martonyi, member of the SPA board. "There will always be protests, whatever happens; it's absolutely normal." But the Government's emphasis on a diversity of approaches at least offers the hope of the survival of the fittest in a difficult political environment.

"Nobody has any knowledge of how *a* mass priva*tisation* will go," Mr Tardos says. "All programmes are very risky, very dangerous." His prescription, which the Government appears inclined to follow, is pragmatic: "Launch many channels and be flexible."

HOUSING

Waiting lists grow

WHEN more inquiring visitors to Hungary ask what books they should read before encountering this remarkably stimulating country, I frequently suggest Janos Kenedi's Do It Yourself.

No, this is not about how to live on $25 a day in Hungary, *nor is it about how to put up* bookshelves or how to repair a burst pipe. It is something much more fundamental. It explains how to acquire land, money, connections, spare parts, materials and energy to build, and own, a house.

The book, banned by the authorities for several years, has been a wild success. It was something with which all Hungarians could identify: the chronic housing shortage, the pervasive corruption and the enormous amount of time and energy people spent in their quest for a home.

Under the *ancien regime* several half-hearted attempts were made to alleviate the housing problem. During the 1950s and 1960s, the Communists built drab high-rise flats. Even though rents were fixed, there was simply never enough capital to meet the growing housing shortage, let alone maintain the current stock.

Instead, those who could afford it – and who had connections in the Budapest City Council – bought a patch of land and began the tortuous task of acquiring bricks and mortar, which were always in short supply. People stole from the state. A dentist agreed to repair, free of charge, a friend's dentures if that friend was a plumber *employed officially* by the State but who used its materials to earn vast sums of money moonlighting. A truck driver would load an extra ton of state-manufactured bricks onto the back of his lorry and deliver them to a doctor who would then give his family priority in the local clinic. Everything and anything was done on the black economy.

However, while those with connections found the rafters and slates, the less well-off ended up on the waiting list at the local municipal authorities.

The list was, and remains, very long. Dr Ilona Geri, an official at the Ministry of Social Affairs, says that nationwide, more than 170,000 are on the waiting list and about 134,000 have no flat at all. Many of these are young people, often married, who are still living with their parents. They have little chance of getting to the top of the list because the State has simply stopped building houses.

In Budapest, which has about 450,000 dwellings, equally divided between state and private stock, the waiting list is over 80,000. Yet this year, Mr Peter Szegvari, a member of the executive committee at the Budapest City Council, says the council has plans to build only 100 new flats. During the 1970s, the State was building around 150,000 flats a year throughout the country. This has dwindled considerably. Dr Geri says that in 1990, a total of 4,000 new flats will be built. This will hardly dent the housing waiting list.

To compound the problem, during the past decade the *state was also selling off* council housing. As a result, the existing state housing stock was run down because of lack of funds and the housing list became even longer. The housing legacy bequeathed to the new Government is pathetic.

Every politician and social worker realises this, which is why the Government, led by the conservative Hungarian Democratic Forum, is trying to work out plans to reform the housing system. But there are problems – including, inevitably, finance.

Last December, Mr Mikos Nemeth, the reform-minded (Communist) Prime Minister *courageously stood up in* Parliament and suggested that mortgage relief be scrapped for home owners. He was under considerable pressure from the International Monetary Fund to reduce the high budget deficit, out of which FT40bn is earmarked for housing subsidies.

Mr Nemeth stirred up a hornet's nest. At issue was the low interest rates.

Ten years ago, anyone who bought land to build a house or flat could receive a 90 per cent loan at a fixed interest rate of 3 per cent (sometimes even at 1 per cent). Today, inflation is running at between 25-30 per cent. Mr Nemeth, in effect, suggested adjusting the interest rates. Needless to say, the plan was rejected.

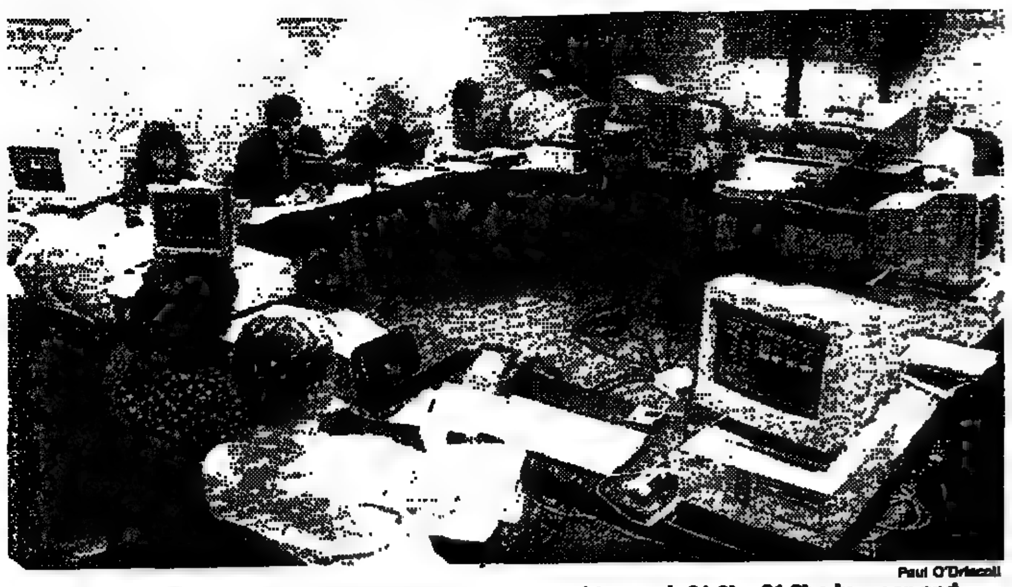
Now, the Government, housing experts and the Budapest City Council are together trying to work out a coherent housing policy. The ideas, which so far remain on paper, include:

- the council selling, at market prices, well-maintained flats which are located in "good" addresses. A two-roomed flat in Budapest costs around Ft2m
- in second-rate flats in less fashionable areas, social housing stock would be improved and allocated to the less well-off who would pay low rents. Those who earn Ft4,800 per month are in this category, even though the the subsistence level was recently increased to Ft6,000 to reflect inflation
- State subsidies, which amount to Ft40bn per year, would be reduced. In their place, rents would be increased – perhaps by as much as 80 per cent. *Dr Geri says that* wages would be increased and special provisions would be made for those in the very low income brackets and those on pensions. Hungarian economists admit they have no idea how this scheme could be implemented without causing further problems
- the most controversial idea so far, which is unlikely to be accepted, is that those people living in large State flats that are too big for them, and who earn high salaries, should be persuaded to move to smaller flats which they could buy. Hungarians have already balked at this idea on the grounds *that the State would* have the right to decide which flats are suited for which people, and that the proposal amounts to eviction.

Mr Szegvardi recognises the pitfalls in these proposals. "The problem is that low, fixed rents have inhibited any mobility. The existing housing stock should be reassessed in such a way that it would reflect its real market value. The Budapest city council wants to sell off flats but also buy some as well. There must be more flexibility. This will increase social mobility. We must build different categories of housing."

Do It Yourself. . . where are you?

Judy Dempsey



Paul O'Driscoll

Budapest Stock Exchange: equity investment is expected to reach $1.2bn-$1.3bn by year-end

FOREIGN INVESTMENT

Shortage of stocks

IN JULY, the day before he finalised a joint venture agreement with EMI, the Government scotched the deal by sacking Mr Jeno Bors, managing director of the Hungaroton record company. The flotation of the Ibusz travel agency was marred by Government criticism of the involvement of the Vienna stock exchange.

Ministerial musings on cutting back tax incentives for joint ventures prompted a panic rush of foreign investors in August to get in before the regulations changed.

Those with a fondness for conspiracy theory might conclude that the Forum-led Government is hostile to foreigners. There is some truth in that, but the main reason for the confusion is that the authorities bungled.

The cases are more revealing for incompetence than hostility to foreign investors. Officials remain embarrassed about faux pas, particularly since the the Government is desperately sensitive to criticism from abroad.

On reflection the Government decided to make only marginal changes to the taxation of joint ventures. The Government is not yet preoccupied with the fear of a popular backlash against foreign economic domination. "I don't see any danger for the next 20 years and in 20 years you can ask someone else," says Mr Janos Martonyi, State Secretary at the Ministry of International Economic Relations.

"We already have the most liberal investment regime in the world," he boasts, describing it as "national treatment plus" and citing as an example the unlimited right of establishment in the service sector. "We had to exaggerate, to get across the message that we welcome participation."

The full repatriation of profits, the crux of the structure, is less controversial and more

'Privatisation and foreign investment are two sides of the same coin'

secure than it was. The drain on Hungary's balance of payments has been only $20m-$25m, far less than feared.

In some ways the climate will become even more clement for foreign investors when the Government finalises a new package of laws in the autumn. The rule that foreigners need a licence for a majority stake will be narrowed to a few sensitive areas.

A bureau under the Prime Minister's office will advise potential buyers. The basic tax advantage for joint ventures will be dropped, probably in January. Currently, any company with a 20 per cent or Ft5m stake is entitled to a 20 per cent reduction in company tax. But many joint ventures fall into the categories which carry 60 per cent and 100 per cent reductions, which will remain.

The conditions are that the companies are in manufacturing or tourism and that there is a 30 per cent or Ft25m foreign stake. The Ft25m threshold may be increased to Ft40m. The Government's goal of equal taxation for Hungarian and foreign owners has been relegated to the distant future.

Despite these favourable conditions, foreign investment has been slow in gathering pace, according to the vague and unreliable official estimates. Equity investment totalled $250m between 1972 and the end of 1988, $600m at the end of 1989 and is expected to reach between $1.2 and $1.3bn by year-end.

The number of joint ventures is growing much faster, from 250 in 1988, to more than 2,000 now and a predicted 2,500-3,000 by January. Of these, however, 200-300 are thought to be bogus, being used by Hungarians to circumvent exchange regulations and save tax.

A few large investments make up much of the capital inflow. Guardian Industries, a US company, owns 80 per cent of Hunguard, a glass manufacturing joint venture in which $115m has been invested. In November 1989, General Electric bought 51 per cent of the Tungsram lighting firm for $150m, still the largest purchase.

In December, the West German insurance company, Allianz AG Munich, took 49 per cent of Hungarian Biztosito (an insurance company) for DM80m. General Motors has a two-thirds share of an engine and car factory joint venture project with an initial capital of $50m and a planned investment of $150m. Ford is investing $80m in a wholly-owned plant making electrical car components. Austria's Prinzhorn group is investing $82m in a joint venture with Paper Industry Company.

The main acceleration in foreign investment came at the start of 1989, when new regulations came into effect. This year the main development has been a wave of greenfield investments by major multinationals.

A further boost is dependent on the pace of privatisation. As Mr Martonyi says: "Privatisation and foreign investment are two sides of the same coin."

The constraint is not the availability of money; more than 10 public and in-house bank investment funds have $600-700m ready to invest. But stocks in which they can invest in are in short supply

'Portfolio investment has less chance than direct investment'

and will continue to be until the Government's privatisation programme gets under way and the Budapest Stock Exchange develops. This is a particular predicament for fund investors because management expertise is at a premium.

"In Hungary, portfolio investment has less chance than direct investment," says Mr Lajos Bokros, a director of the Hungarian National Bank and President of the new Stock Exchange. "It is a miscalculation for foreign investors just to come here with money." Investors in the same line of business as the Hungarian target may find their scope broadened by the Government's new privatisation policy. One idea is that a foreign company should be able to trigger the privatisation of acompany by making a bid.

But in the final analysis, the prospects for foreign investment depend on whether the Government follows up its rhetoric and its elaborate plans with determined action to divest itself of its property.

Nicholas Denton

Visitors will spend up to $800m in Hungary this year, writes **Nicholas Denton**

Tourism: on course for a record year

ONE OF Hungary's healthiest economic indicators is the number of women in identical peasant dress who neatly line the sides of Vaci Street, the pedestrianised shopping street at the heart of Budapest, selling embroidered cloths.

The hordes of tourists now have to run a gauntlet which stretches the length along the middle stretch of the street, but the evidence of a tourism boom is not merely impressionistic.

Twenty million tourists visited Hungary to the end of June, 65 per cent more than a year earlier.

Recorded hard-currency spending by tourists in the first half was double the level of the previous year, and initial indications for the peak summer months show that the increase has been sustained.

The total for the year could be more than $800m, well over a tenth of Hungary's hard-currency export earnings, giving Hungary a tourism surplus which is predicted to be in the region of $400m-$500m.

But the official figures do not tell the whole story. One study shows that only 43 per

Tourism has put Hungary within reach of a current account surplus

cent of spending by tourists ends up in the statistics.

Last year, the flood of Hungarian shopping tourists with their new "world passports" to Vienna upset the Hungarian balance of payments.

In March, in the week before customs regulations were tightened, 200,000 or more jammed the roads to Vienna, many more than went to the first mass anti-communist demonstration.

This year, the improvement of the tourism balance is putting Hungary within reach of a current account surplus. Hungary has been a Mecca for tourists for many years. Budapest and Lake Balaton in the west of the country were favourite meeting places for German families divided by the Iron Curtain.

The range of goods in the shops made Hungary an attractive place to visit for the frustrated shoppers of its east European neighbours.

But since 1980, Hungary has been attracting more lucrative tourists from the west in rap-

The authorities are trying to promote theme tourism and cultural tours

idly increasing numbers, and 1990 has been the best-ever year.

The waiving of visa requirements for most European nationals – though not yet for Britons – makes Budapest an easy weekend trip for tourists visiting Vienna.

Italians seem to have discovered Budapest this summer, although Germans and Austrians are still more numerous.

On the weekend of the Budapest Grand Prix last month, it seemed as if every tenth car in the centre was Italian.

Copies of Corriere del Sport swamped those of the Financial Times, International Herald Tribune and German-language newspapers on the unofficial street stalls which sell foreign newspapers (at a mark-up, of course).

Even the moneychangers, tolerated by the police, abandoned their traditional catchword. "Cambio?" temporarily replaced "Changemoney?"

This year is exceptional. The first post-communist summer has seen the arrival of the post-communist tourists, often on a whistle-stop tour of Eastern Europe.

If this is Tuesday, this must be Budapest. Macdonalds on Marx Square, to be sure, is a favourite. The post-communist tourist can still buy over-priced busts of Lenin, communist badges and Soviet Army uniforms at the city's fleamarket.

Less cliched destinations for the post-communist tourist are the holiday complexes which were reserved for the Communist Party and are now hotels catering mainly for German and Austrian tourists.

One of the most charming is the Hotel Park, near Tihany on Lake Balaton. The hotel has a nice beach and grand but spartan rooms. But best of all are the crisp linen sheets embroidered with the initials of the old ruling party and the chambermaid who will tell you which former Communist leaders slept in them.

But the red stars, heroic statues and street signs are gradually coming down, the Communist leaders' names will soon be forgotten and next year Hungary will have to rely on its more lasting attractions.

Food is one. Choose a restaurant carefully, avoiding the very centre of the city and the Castle Hill, and you can eat and drink well at prices that are still laughable to westerners.

Private restaurants are the best, so the letters KFT (plc) after a name are a good indication of quality and value. The famous cafes serve such fantastic cakes in such stylish surroundings that the often dismal service can be shrugged off.

Budapest also provides a good antidote to overindulgence. The city has plenty of thermal springs.

"Almost everywhere, if you dig a stick into the earth, thermal water will come out," says Mr Otto Balogh, an official of the Hungarian Tourism Board. Tourists brave the bureaucratic admission procedures at the Gellert Baths for a swim, a hot bath and a massage. Amid marble pillars they can pretend that they are undoing the effects of overeating.

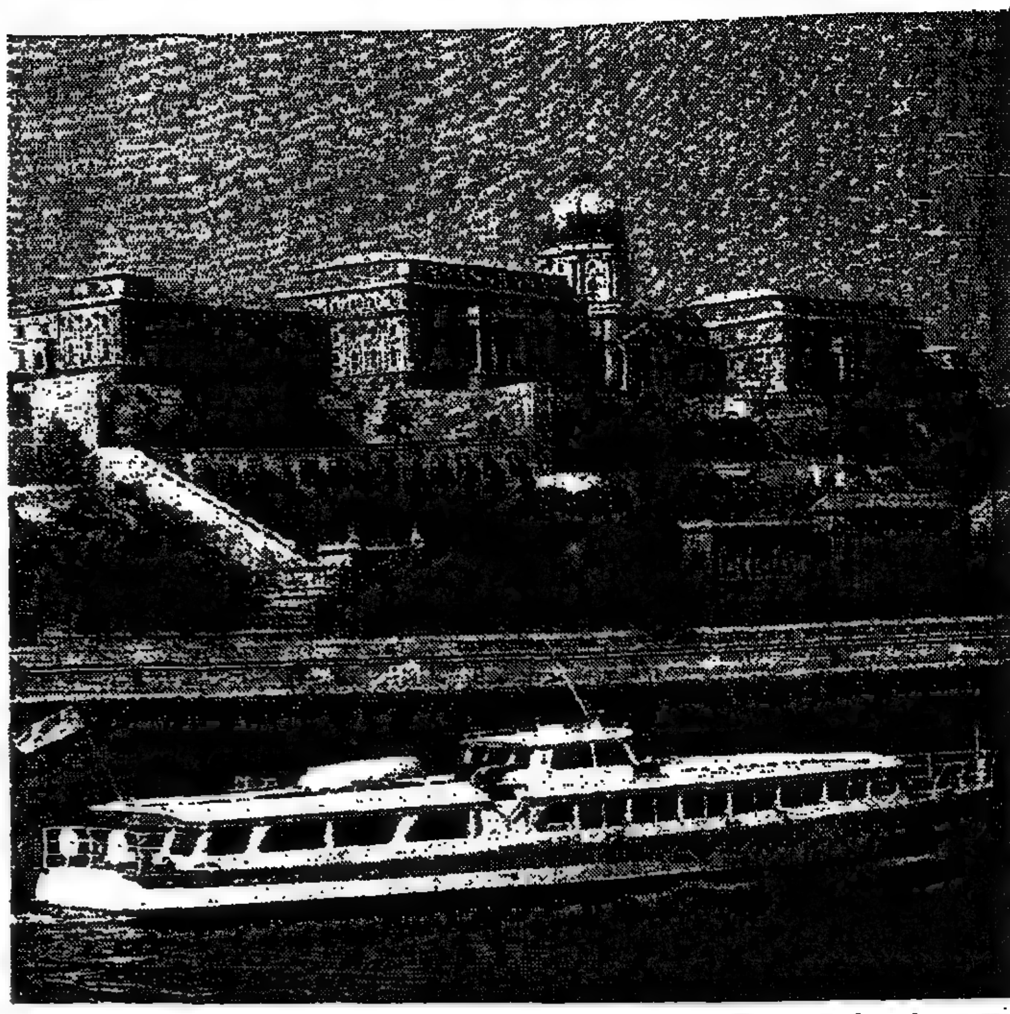
Hungarian health tourism is more than just a sideline. Occupancy rates for thermal hotels (which usually offer medical treatment as well) are running at more than 90 per cent, which is encouraging plans for more.

Moreover, dentists and doctors in the west of the country have grown rich on Austrian private patients who hop over the border for cheaper treatment.

Apart from spa tourism, the authorities are trying to promote business convention, theme tourism such as hunting and riding, and cultural tours.

The authorities recognise that mass tourism, in a country without a seashore, has gone about as far as it can and the traditional destinations are saturated. Most of Lake Balaton is over-developed, crowded and downmarket.

Moreover, Budapest city centre is too small to absorb more visitors without diminishing its attraction.



Buda Castle: the waiving of visa requirements for most Europeans makes Budapest an easy weekend trip from Vienna, while the city's thermal springs offer an antidote to overindulgence

Hungary is racing to detach itself from its east European neighbours in an attempt to avoid depression, writes **Nicholas Denton**

Comecon collapse spurs export drive to the west

FOR 40 years, Hungary's economy was welded artificially to those of its east European neighbours. Now Hungary is in a race to detach itself before it is dragged down into economic depression by its neighbours.

The challenge is to shift trade back towards the West faster than Eastern markets collapse.

Minister of International Economic Relations Bela Kadar

Hungary will pass two historic milestones this year.

First, trade with EC countries, which accounted for 27 per cent of the total in 1989, will this year surge past trade with Comecon countries, which made up 41 per cent of all trade last year. Second, the new united Germany will overtake the USSR as Hungary's main trading partner.

However, Hungary's total exports declined by 5 per cent and imports fell by 9 per cent in the first half of 1990, compared with the same period in 1989. The export boom to the west is not strong enough to compensate for a catastrophic contraction of trade with Comecon conducted in roubles.

Hard-currency exports were 15 per cent higher in the first half compared to the same period last year, while imports fell by one per cent. But rouble-denominated exports (38 per cent of the total in 1989) plummeted by 30 per cent and imports by 20 per cent.

Poland's recession, Soviet economic chaos and, most recently, the cancellation of East German contracts since economic and monetary union with West Germany have all contributed to the decline.

The future worries Mr Bela Kadar, Minister for International Economic Relations. "What is happening to Eastern trade is worse than miserable: it is the worst shock since the oil shock and the next shock will come in four months."

From January, trade with the USSR and other Comecon countries will be calculated in dollars at world prices. Under the old system, Hungary paid for Soviet oil and raw materials with goods tailored to an undemanding Soviet market.

Oil will cost more and nobody knows how many Soviet customers will still buy Hungarian products when they have to pay in hard currency.

Mr Kadar expects Hungarian exports to Comecon countries to fall by another 20 per cent in 1991 and a further 5 per cent in 1992, meaning that they will have halved in less than three years. Because of Hungary's dependence on Soviet oil, the hard currency balance of payments could deteriorate by \$1bn-\$2bn, even without the recent oil price increase.

Carrying over Hungary's accumulated surplus of past years will cushion the pain, but it is not a long-term solution. The shortfall of Soviet oil supplies in the second half of the year will be about one-third, forcing Hungary to turn to an expensive world market. The cost to the hard currency balance of payments of is conservatively estimated at \$210m-220m for the whole year.

What is most galling is that the shock comes as Hungary's hard currency balance of payments had been showing a remarkable improvement.

The current account swung to a \$185m surplus in the first half of this year, an improvement of more than \$1.1bn on the same period last year and equivalent to an unprecedented 4 per cent of GDP.

A surplus for the year as a whole looks within grasp, despite increases in interest rates (which will boost the interest bill to \$1.5bn), Soviet oil supply cutbacks and price increases on the world oil market. Last year's deficit was \$1.4bn and the International Monetary Fund had set a \$400m deficit target.

Three main factors lie behind the improvement. Tight monetary and fiscal policies have restrained domestic demand and curtailed hard currency imports despite growing import liberalisation.

Hungarian companies, faced with collapsing eastern markets, have turned to the west as a matter of survival. This "distress exporting" helped push the trade surplus up to \$550m in the first half, making a \$1bn full-year surplus plausible. Budapest's growing popularity as a holiday destination means that spending by western tourists is running at about double that recorded last year. The surplus on the tourism account is expected to be \$400m-500m for 1990. Prospects for exports to the west are good too, if western economies avoid recession. Export orders at the end of July were 30 per cent up on the year.

Another leading indicator is the burgeoning number of foreign trade companies. In 1970 there were 35, in the 1980s about 300; now there are more than 6000, of which more than 2000 have been set up in the last few months.

Furniture, clothing and leather manufacturing, pharmaceuticals and processed foods all have great potential, especially if Hungary gains greater access to EC markets under an asymmetric trade agreement, the negotiation of which begins this autumn.

In the longer term, vehicle production is promising, as multinationals set up in Hungary, complementing the domestic Ikarus bus manufacturer. Mr Kadar also pins his hopes on R&D-intensive sectors: "What is really cheap here is highly-qualified labour."

But next year remains daunting. This year the growth of the export boom to the west and the increase in tourist revenues helped neutralise the eastern collapse. In 1991, the same trick will be more difficult, thinks Mr Kadar.

However, he adds, "we have to reproduce it next year if we are to survive the eastern markets' deepening crisis. But most of the reserves of the Hungarian economy have been used up in the radical change of market. The easier part of the redeployment is behind us."

BROADCAST AND MEDIA

Reformer fights off the politicians

THIS AUTUMN, Mr Elemer Hankiss should have been teaching at Stanford. Instead, this amusing, ebullient, 60-year-old sociologist who specialises, among other topics, in the origins of corruption, decided to take on the unenviable job of running Hungarian Television.

His studies on corruption may serve him well. Magyar Televiszio (MTV), which is housed in the old Stock Exchange on Szabadsag Ter (Freedom Square) in the centre of the city, was a bastion of corruption, favouritism, and infighting right up to the day the Communists were voted out of power last April.

But why anybody would dare to try to revamp MTV, which is bound to play a crucial role in shaping Hungary's political, social and cultural transformation, is a question that Mr Hankiss pondered for many weeks.

Both main political parties wanted one of the two channels to favour them

"No! No! No!" That's what I kept saying when I was first offered the post. They tried to morally blackmail me into the job, saying that it was far better to remain in Hungary and contribute to the changes than go off and teach in the US."

For two months, Mr Hankiss mulled over the offer. He set 15 conditions. The first was that he should accept the appointment from Parliament, not the Government. The second, that a new broadcasting law be set up. All his conditions were met; even the constitution was amended to meet the first.

But if Mr Hankiss thought that accepting the appointment was the difficult part, he was misled.

Restructuring MTV, while a marvellously exciting challenge, especially as Hungary emerges from Communist rule, is a task that the politicians would like to get their hands on.

No sooner had Mr Hankiss climbed the steps to this imposing building than the middle ranks of Hungarian Democratic Forum, the conservative party which heads the coalition, and the Alliance of Free Democrats, the largest of the opposition parties, each approached him. Both said they wanted one of the two channels to be expressly pro their own party.

"No way was I going to have this," said Mr Hankiss. "They may have this sort of system in Italy or even Holland. But I was not going to have it here. Besides, the cleavage (between the urban/Budapest-based and largely Jewish intellectuals, and the conservative populists/nationalists) in this country is bad enough. I was not going to use television to make it any wider."

Instead, Mr Hankiss – and he admits that the ideas are still on the drawing board – would like one of the channels to be modelled on BBC 1, and the second one to be inspired by ITV, the independent British commercial station. "My philosophy is this: Hungary needs a good television network of high quality and competition. These two channels would meet both needs."

He recognises that MTV would have to combine foreign and Hungarian capital and more significantly, that the expansion of satellite broadcasting will have an enormous impact in Hungary.

He reckons that anything between 500,000 and 1m households already have satellite television. "In which case, in about three years, it would be good if Hungarians had access to a Hungarian-language satellite."

That is not all this energetic sociologist has in mind. He wants to set up a weekly magazine, something along the lines of Britain's Listener or Spectator. Of course, revenue is needed for this. But mention the word "money" and Mr Hankiss replies: "Tenders."

"We can put these things out to tender. I have already put out the tender for the local government elections (which will take place on September 30). The team with the best ideas will win. I will do the same with the magazine. It is the only way to attract talent and competition," he says with a glint in his eye.

Indeed, while there is undoubtedly some talent in MTV, Mr Hankiss knows full well that there is also a lot of dead wood – mediocre people who were chosen for their political loyalty. But despite pressure from the politicians to throw them out (and, no doubt, suggest "suitable replacements") Mr Hankiss is simply not interested in the idea.

"Sacking people is no solution to the problem. Of course there are many people here who were chosen for the politics. But there are talented people here too. I will not sack a single person under party pressure. My plan is to start new programmes. As I told you, we can attract talent through tender. The real talents of those here in MTV will be tested. Those who cannot compete will probably leave of their own will."

Liberal-minded politicians welcome this move, while viewers are likely to welcome Mr Hankiss' other plans which are extremely imaginative. What he would really like to do is to broadcast, each night, ten minutes of BBC TV's World News with Hungarian subtitles. Then, once a month, for a whole day, he would like to replace one of the Hungarian channels with NBC, CNN, ABC, or BBC. "I want to open up Hungarian culture. I want open television." Such a statement could well stick in the throats of the nationalist-minded, who believe that Hungarians cannot get enough of their own culture.

Hankiss would like one channel modelled on BBC1, the other on ITV

Mr Hankiss has no illusions that this will all cost money. Advertising will pay for some of it. Perhaps a rise in the television licence, which costs 130 forints (\$2.10) per month, would help meet further costs. At the moment, MTV is in the red. With Mr Hankiss at the helm, it is not likely to remain so for much longer.

Judy Dempsey

PROFILE: Prime Minister Jozsef Antall

Premier's didactic style

IT IS not easy living in the shadow of a Havel or Walesa. Westerners do not laud the towering moral authority of Mr Jozsef Antall, the Hungarian Prime Minister, nor do they invite him to address joint sessions of Congress or reissue his books. Most of them probably do not even know who he is.

Mr Antall is aware of the cost. "In Poland and Czechoslovakia there are two names which simplify identification in the world, that is a political advantage." But he points out the difficulty with which Polish politics is accommodating Mr Lech Walesa's oversize personality and doubts whether President Vaclav Havel's reputation alone will solve Czechoslovakia's problems.

Hungary's politics, he believes, are more normal, more western. It is not that Mr Antall cannot match his neighbours in glamour, but that he is not inclined to.

Former colleagues describe Mr Antall as being aloof and autocratic

His public is not the western public but western Governments.

"I don't think that in the present ex-communist countries there are heads of Government with better contacts with the west in general or in whom there is greater confidence."

He disdains "tricks for popularity." Advisers press Mr Antall to meet the people in shirtsleeves or abandon his tie just once, but his natural reserve prevails. "Why should I go without a tie when I find it more comfortable with one? These tricks can be used for a short time but in the long run a politician is judged by his performance."

A reputation for solidity is more highly prized than "a noisy, emotional image for the purposes of publicity. Seventy per cent of that is a question of technique."

It is another question whether Mr Antall has the remaining 30 per cent that could add up to charisma. The didactic style of the teacher Mr Antall once was lingers on. Sentences are interminable and answers to questions lead up every sidetrack before winding their way painfully slowly to conclusion. Only when he relaxes can he be unexpectedly witty. Former colleagues describe Mr Antall as aloof and autocratic. But an awkward manner betrays some of the shyness which old friends say marks his character: Mr Antall's face has a nervous tendency to swivel up to the ceiling or towards a window. His fingers rest a trifle pompously against his face in a statesmanlike pose. For a man not concerned about his image, Mr Antall is very concerned, and sensitivity to media coverage verges on the obsessional.

PERSONAL FILE

1930: Born in Budapest, educated at Piarist Gymnasium and the Eötvös Lórand University, Budapest
1956: Involved in the revolutionary committee of the secondary school where he taught history. After 1956, banned from teaching
1956-89: Administrator at Semmelweis Museum of Medicine, Budapest. Later appointed director
1974: Allowed to travel to West for first time
1989: October, elected President of the Hungarian Democratic Forum
1990: April, chosen as Prime Minister

A public holiday last month is cited: "Thousands of people shouted long live the Government and even my name was mentioned there, and people saying 'thank you for everything'. And these things were somehow forgotten and not shown by the mass media."

He blames the "left-radical" Budapest press which also infects the foreign press with its atmosphere. Once Mr Antall gave 70 interviews over a weekend to the foreign press. 62, he says significantly, asked the same questions. For someone unconcerned with his place in history, Mr Antall makes immodest comparisons with past figures.

As befits the historian he once was, Mr Antall ranges freely across the centuries in search of models: Saint Steven (the first king of Hungary) for the mission to attach Hungary to the west, Gladstone for tight-buttoned liberalism, Churchill for determination, Adenauer for normalisation, Kennedy for renewal.

"I don't consider it an insult that I am called Gladstonian, nor do I feel old-fashioned if I am called that. I can find similarity and politically very near to me, the situation that had to be tackled by Adenauer in West Germany: political and moral crisis caused by Hitlerism, to turn the Germans into a democratic nation. To me personally, Churchill and Kennedy are the people who are particularly close to me: the stubborness and determination of Churchill," he says.

"I know the Hungarian people and character just as Churchill did the English."

Mr Antall's judgement of the Hungarian character is revealing. He cannot or will not offer the Hungarian people blood, sweat and tears to reconcile them to the economic trauma they are undergoing. "As a matter of fact this is what I should say, but the psychological character of the Hungarians is different from the English," he says. "Of course one should not forget that the Hungarians are prone to pessimism. Our poetry, this national death theme, also shows that there is an inclination of Hungarians for depression. And we also know that the rate of suicide has been very high for centuries. . . Many Hungarians throw life away out of bitterness. To promise blood, sweat and tears is not going to give strength to the Hungarians as it did to the British.

"I have emphasised that hard times are coming and we have to get ready for that, but there is a way out of the situation and we have to say what the way out is. But I am not going to disclose the full recipe," he says enigmatically.

"Antall knows nothing about economics," says Mr Marton Tardos, the economic adviser to the opposition Alliance of Free Democrats. That is not quite true. The Prime Minister seems to have adopted a few maxims: the foreign debt should be paid, the budget should be balanced, the International Monetary Fund should be kept happy. But on the intricate questions of privatisation and the macroeconomic stabilisation of the economy, he hovers uncertainly above his squabbling ministers.

'Hard times are coming and we have to get ready for that'

There is some truth in Mr Antall's claim that he has a feel for Hungarian public opinion. His long television interviews act as a sedative for a tense society. Moreover, he has a feel for politics. Any claim for a unique historical role will come from this: that Mr Antall is one of the few natural politicians in Hungary's new establishment. Even his enemies concede this fact. An instinct for compromise, for when to say nothing at length, for when to let a crisis blow over, for wise appointments and, most of all, for power make Mr Antall difficult to replace.

Nicholas Denton

AGRICULTURE

Smallholders and reforms

WHEN Hungary's Smallholders Party reconstituted itself last year in preparation for the country's first free elections in more than four decades, it based its election campaign on just one platform: land which was confiscated by the Communists after 1947 should be given back to its original owners.

On paper, the idea was appealing to the pre-war generation who formed the new leadership of the Smallholders, one of the largest political parties between the two world wars.

In practice, it was one of the first issues which plagued the new Government.

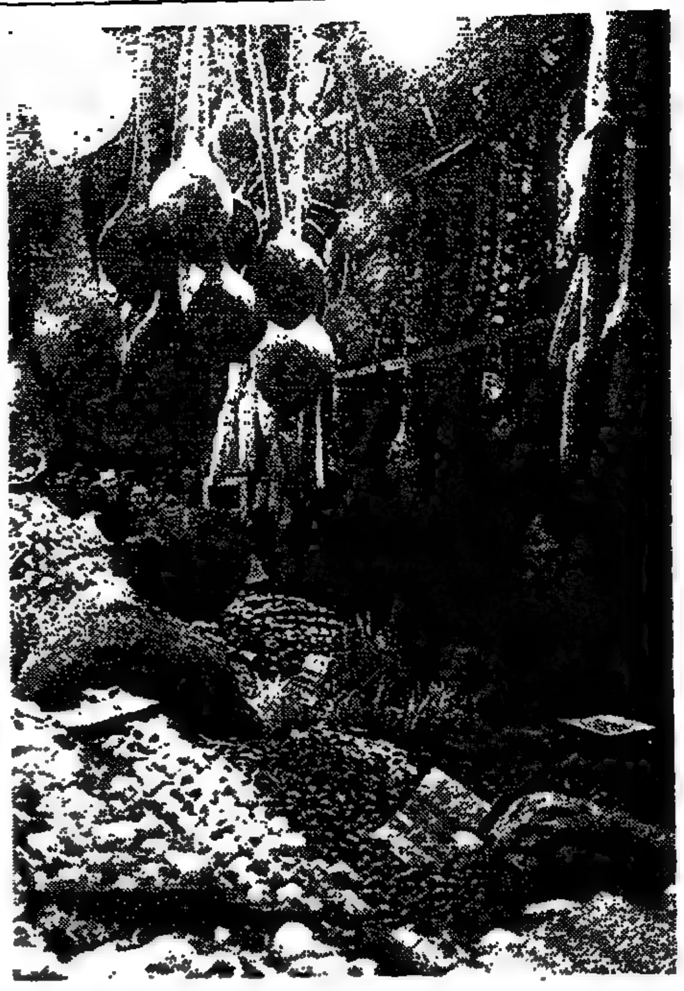
Before the elections, the Smallholders' leadership was vague on how the land would be redistributed, particularly since land records had been lost or destroyed following the Communist take-over in 1947. Besides, there was little money in the coffers to assist peasants to buy land, or buy themselves out of the co-operatives which, over the past thirty years had become the mainstay of Hungarian agriculture.

Nonetheless, the Smallholders, partly because of their sharp anti-communist stance during the elections, and their nostalgic links to pre-communist Hungary, did well enough to be invited to join a coalition with the Hungarian Democratic Forum, the large, conservative party which today heads the Government.

One of the first tasks facing the Forum, therefore, was the land question.

Land, and more importantly, the agricultural lobby, has always held a prominent place in post-war Hungarian politics. The late Mr Janos Kadar, who headed the ruling Hungarian Communist Party from 1956 to 1988, was careful not to alienate this vital sector of society. Indeed, when under pressure in the early 1980s to appease the heavy industry lobby, he attempted to curb the political clout of the agricultural lobby by reducing prices and subsidies. The farmers promptly responded. Those with small plots and those on the co-operatives stopped supplying the towns and cities with food. Mr Kadar quickly learned his lesson. A hungry population spells disaster for any leadership.

The Hungarian Democratic Forum will not fall into the same trap because the political conditions have radically changed. Moreover, in recent weeks, Mr Jozsef Antall, the Prime Minister, has been attempting to persuade the Smallholders that to return land to its original owners would cause social disruption and would cost a great deal. Instead, the Forum is suggesting a gradual, cautious programme aimed at the privatisation of land. Their caution is tempered by the importance of agriculture to the economy.



Central Market, Budapest: agriculture accounts for 16% of GDP

More than 20 per cent of the Hungarian labour force work on the land, which is very high by western standards. But Mr Laszlo Sarossy, the State Secretary for Agriculture, has no qualms in saying that one-third of the workforce is "underemployed."

"You could say that of the 1,300 co-operatives in Hungary, about 600 are social institutes. They are not performing well. This was pointed out in the mid-1980s in a report drawn up by the International Monetary Fund and the World Bank. It concluded that in the State farms, milk yields, for instance, were way below expected levels. It suggested that some of the co-operatives be privatised. Naturally, the report was not published in Hungary at the time," he says.

'This Government carries the burden of 40 years of Communist rule. . . we must take a step-by-step approach'

Yet despite this criticism, Hungarian agriculture continues to account for 16 per cent of the equivalent of GDP, 23 per cent of total exports and 30 per cent of hard currency earnings. Over the past few years, gross income from agriculture totalled $1.6bn and net income, $1bn.

The squeeze on the budget, however, forced down incomes as well as subsidies; the Government over the past few years had already reduced subsidies by 25-30 per cent.

Mr Sarossy recognises that agriculture could be made more efficient, and not by disbanding the co-operatives overnight. He would reduce the number of large State farms but retain some which would be earmarked for research. Furthermore, the Government's agrarian policy would include private ownership, but based on the following principles:

- former agricultural land owners who are still living will be eligible to receive up to 116 hectares of land and, where possible, land which they had farmed before 1947;
- descendants of dead land-owners will be allowed to share a maximum of 100 hectares, on condition that they keep the land under agricultural use;
- agricultural workers, who have worked on co-operatives will be eligible to obtain up to 1.5 hectares per person. Mr Istvan Borocz, deputy leader of the Smallholders, says they would obtain easy credit to pay for this land;
- co-operatives would be allowed retain any land which is left over;
- forests, with few exceptions, would not be returned to their former owners. Instead, they would receive agricultural land twice the value of their former possession;
- foreigners will not be permitted to buy either agricultural or foreign land.

"We want equal chances for everybody," says Mr Sarossy. "As for foreigners, we do not want Hungary to be completely sold out to them. We are not against foreign capital. We encourage capital investments. The point is that this Government carries the burden of forty years of Communist rule. That is why we must take a step-by-step approach."

Judy Dempsey

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FINANCIAL TIMES SURVEY

WALES

■ New attractions for high technology and research companies. See Page 4

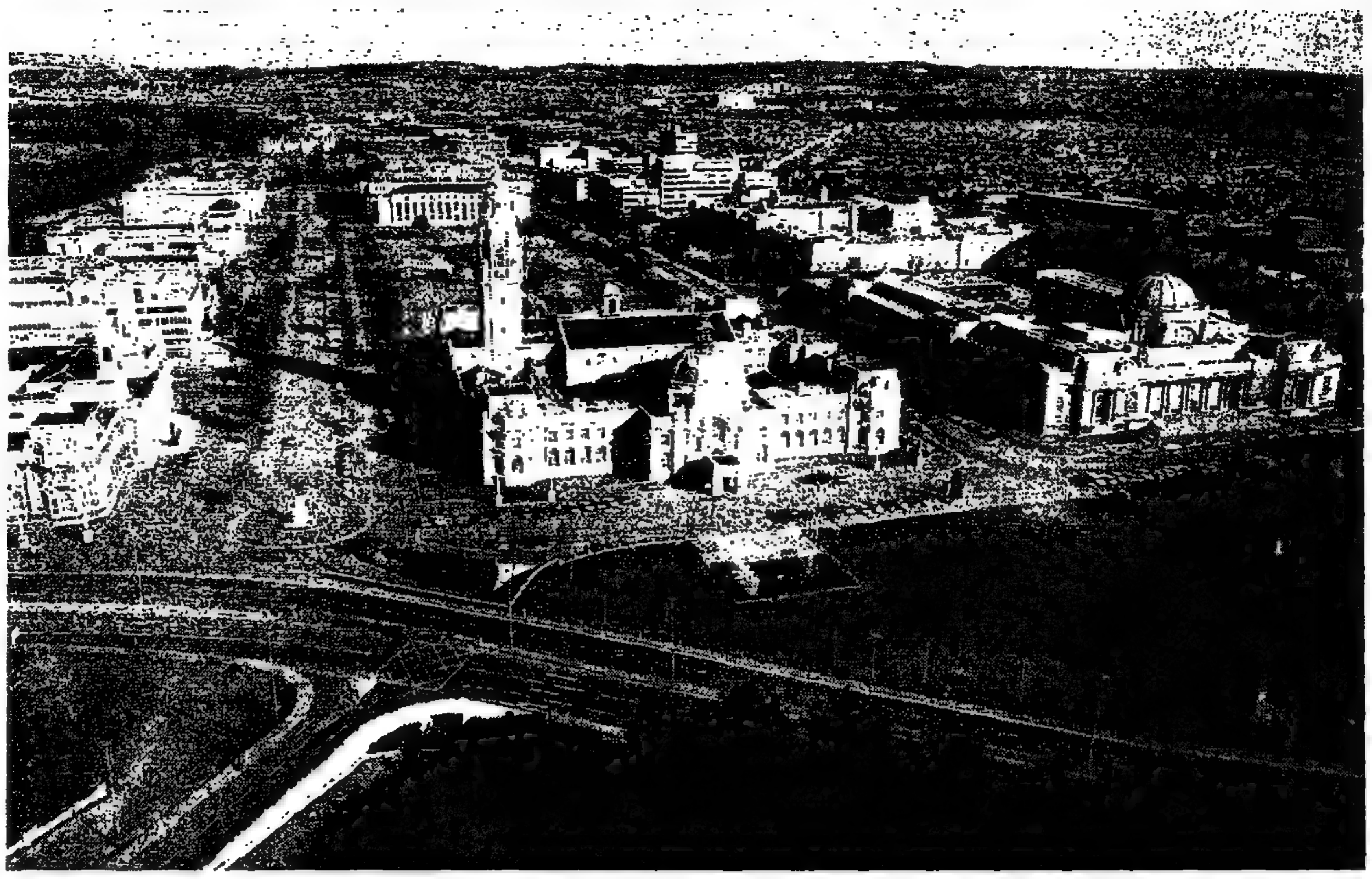
■ Hope stirs in the valleys: unemployment has come down. See Page 5

SECTION IV

Monday, September 17, 1990

Wales is seeking to attract new areas of business and industry, ranging from skilled engineering to financial services, in the place of traditional heavy industries, says **Anthony Moreton**

A stronger economy emerges



Cardiff's City Hall dominates this view of the central and northern areas of the city. The Law Courts are on the left and the National Museum of Wales is seen on the right. In the foreground is the Boulevarde de Nantes, named after one of Cardiff's twin cities.

THREE MONTHS ago, Lord King, chairman of British Airways, announced in Cardiff that the airline was to spend £70m on a new maintenance base at the city's airport for its fleet of 747 jumbo jets. In the presence of Mr David Hunt, Secretary of State for Wales, he revealed the project would lead to the creation of 1,200 jobs. To say the announcement was widely welcomed would be an understatement.

Only weeks before Wales had been hit by two major closures. British Coal had announced it would close its loss-making Blaenant pit above Swansea with the loss of 577 jobs. The move reduced the number of pits in south Wales to five where once there had been hundreds. And at Wrexham in north Wales, United Engineering Steels announced the shutdown of its steel plant at Brymbo with the loss of 1,125 jobs.

It is a measure of the new confidence to be found in Wales that the closures were greeted with little more than ritualistic concern. Not so many years ago, there would have been threats of sit-ins and demonstrations and questions would have been asked in the House of Commons.

A new maturity has emerged in which Wales is looking to attract skilled engineering jobs and new sectors such as finance in place of traditional heavy industry. No longer is Wales about steel and coal and metal forming; no longer is it a country of low-paid jobs with a flat-cap sub-culture.

A new economy is emerging, based on the industries of today, semi-conductors and financial services to the fore. Representatives of the old industry remain but they, like British Steel, have gained in efficiency – "Wales used to be known as the land of coal, steel and subsidiaries," says Mr Stuart Lindsay, partner in the Cardiff office of accountants Touche Ross. "Not any more."

Mr David Waterstone, soon to move back into private industry after seven years as chief executive of the Welsh Development Agency, adds that there has been a transformation in the economy – "the trouble is that many people outside Wales are not aware of that change. We need to change perceptions."

New names have arrived. West Germany's Bosch has chosen Cardiff for its UK plant to manufacture alternators. Toyota chose Deeside in north Wales for its engine plant to supply the car assembly works in Derbyshire. A Tesco headquarters unit is in Cardiff and Lloyds Bank handles all its in-house mortgage work in Swansea rather than London. In the next few weeks a West German company will announce it is opening in Swansea specifically to supply Bosch in Cardiff.

"When I came here," says Mr Waterstone, "I had all the prejudices of an ignorant non-Welshman. In my mind's eye the valleys were all of Wales and the valleys were full of short, dark men standing between the black spoil heaps, singing bravely in spite of the drizzle.

"It was a caricature. Even so, in those seven years there has been an enormous change. A great deal remains to be done but Wales now seems to have the means for dealing with its problems because the spirit of determination and risk-taking that drove the industrial expansion of the last century seems to have returned.

"The cause has not been the arrival of any foreign group, important though they are. The engine of recovery lies in the resurgence and diversification of the small and medium business sector."

The new Wales is represented by the growth of entrepreneurship and the arrival of major international names. A decade ago Wales was at the bottom of the UK self-employment table; it is now top on a per-head-of-population basis.

In the past decade the number of the self-employed has risen by 35,000, around a third, to 150,000.

"The Welsh economy has experienced tremendous changes in the past decade," says Mr Philip Cooke, of University College, Cardiff. "The growth rate of new firms in Wales has been outpacing that elsewhere in Britain and the business survival rate between 1980 and 1986 was much higher."

Cambridge Econometrics has forecast that Wales will continue to increase its rate of employment faster than that for the UK as a whole, based on the premise that the Welsh economy will grow faster than that of the UK.

It is the level of inward investment that is helping to sustain this growth. Mr Terry Hoggett, chairman of the international architectural firm Hoggett Lock-Necrews, says that only Leeds and Newcastle can now match Cardiff in their ability to attract investor interest.

His own company is involved in schemes totalling more than

Continued on page 8

IN THIS SURVEY

Mr David Hunt, Secretary of State for Wales

INWARD INVESTMENT

Encouraging trends

WHEN TOYOTA last year decided to build its £140m engine plant at Deeside in North Wales, the decision was considered in the principality as almost a consolation prize.

Wales had hoped to be chosen as the site for the company's car assembly works and there was great disappointment in the principality when the Japanese multi-million pound investment went to Derbyshire.

For almost any other part of the UK the arrival of the engine plant would have been *sufficient in itself and it is* perhaps a measure of the success that Wales has had in winning inward investment, especially from abroad, that the engine plant should have been widely seen as a second-best option. This site will initially turn out 100,000 engines a year from a workforce of 200, both figures certain to be expanded eventually.

Toyota is, in fact, only one of a number of very big names that have arrived in the Principality. Three months ago, British Airways chose Cardiff-Wales airport for the site of a £75m engine maintenance plant for its fleet of Boeing 747 Jumbo jets.

This plant will employ 1,250 people, most of them with high technological skills, who will contribute enormously to the infrastructure of south-east Wales.

Earlier, Bosch had announced it was to make alternators outside Cardiff. That plant is approaching completion and the West German company expects to have over 500 workers in the factory by the end of the year.

Tesco relocated a headquarters unit to Cardiff and Lloyds Bank transferred some of its London HQ activities to Swansea; another company to choose Swansea was Alberto Culver, the hair products group; Kimberly Clark, Alcoa and Matsushita are among companies that have decided to locate or expand in Wales.

Others such as TSB general insurance and Bisley Office Equipment, both in Newport, and National Provident Institution, in Cardiff, are among a long list of arrivals.

As Mr David Hunt, Secretary of State for Wales, Dr Jones and almost everyone else tells

Dr Gwyn Jones, chairman of the Welsh Development Agency.

you at the first opportunity, Wales has won 20 per cent of all manufacturing investment arriving in the UK in the past half-a-dozen years.

Some 35 companies, like Orion, National Panasonic, Brother, Sharp, have come from Japan.

Far more – 140 – are from North America, representing a cross-section of the top names there. These companies represent over half the companies that have come to Wales from abroad.

Nor will these be the last, *forecasts Mr Mike Price*, director of Welsh Development International (WDI), the inward investment arm of the Welsh Development Agency.

"There is a steady flow of inquiries from companies about locating in Wales and those will certainly be translated into decisions to open here," he says.

What particularly pleases Dr Gwyn Jones, the agency's chairman, is that many of the incomers subsequently expand on their new sites.

Last year, nearly 40 per cent of all projects in Wales were for expansions by existing concerns, he says – "while the original investment may have been in a familiar, safe technology, successive expansions are often of a more exciting nature, in areas which are new to the company and demonstrate their confidence in their workforce *and infrastructure* support in Wales."

The results can be seen in the figures, Mr Price adds. Since the WDA was set up in 1976 Wales has attracted over 430 companies from overseas involving a capital investment of some £1.7bn.

More recently since Winvest – precursor of WDI – was established in 1983, inward investment has led to the creation of 44,000 jobs. "And at a conservative estimate, at least one job has been created in a spin-off sector for every one that has arrived through direct investment," he says.

"The significance of these companies is that it gives Wales a substantial base in growing and developing sectors," Mr Price adds.

"The British Airways decision arose because the company was happy with its present plant, knew the workforce, and knew the quality of its suppliers and communications between them."

It also arose because the local authorities in Wales have moved aside obstacles to the creation of a more highly-skilled workforce.

To assist BA, South Glamorgan County Council is to set up a department of airframe technology in one of its colleges of further education and Mid-Glamorgan is to establish an aero-engine department.

This willingness to bend to the needs of incomers has been reflected in North Wales, too, where strong emphasis has been placed on medical technology at Wrexham by Clwyd County Council.

To ensure that the flow of inquiries and visits by companies is turned into investment decisions the WDA's Dr Jones decided last year to give Welsh Development International new impetus by providing it with a separate board of non-executive directors drawn from the top level of British industry – men like Sir John Harvey-Jones, ICI's former chairman, and Shell's Mr Desmond Watkins.

Greater focus is also being placed on south-east Asia and North America, where a chief executive, based in Baltimore, has been appointed to oversee offices in New York, Chicago, Atlanta and Ottawa. A fifth office on the West Coast is also *in the pipeline.*

An office in Tokyo is about to be supplemented by representation in a number of other centres.

Mr Colin Adlam, former director of Winvest, has been in Taipeh, Taiwan, for some months investigating the possibilities of stronger representation there.

An office in Seoul, South Korea, was opened 12 months ago and officials in Cardiff are pleased with the amount of interest in Wales it quickly developed.

An experimental office in Hong Kong has been less successful and there are doubts whether it will be continued after the end of this month.

Following the lead given by Mr Peter Walker, the former Welsh Secretary, in developing contacts with the rich German Baden-Wurtenberg region, WDI is opening an office in Stuttgart as its first in continental Europe.

The need for such an office is all the more important as the two Germanies unite.

A foothold in prosperous Stuttgart should give Wales access to the new markets that open after the end of the economic and political division between the two Europes.

Other links are being forged with Lombardy in Italy, Catalonia in Spain and Rhone-Alpes in France.

Wales has been good for TSB, Mr Bruce McDowell, general manager of its general insurance arm which relocated to Newport two years ago, says.

"Our high hopes for high-quality staff have been amply fulfilled.

"The development of business parks has made offices available, the quality of life is perceived to be higher than that of south-east England and there is a large, untapped market of workers."

Wales is a good place to be, he claims.

"The links Wales is making within Europe," says the WDA's Dr Jones, "recognise the strengths and opportunities which exist in the principality. The rest of Europe is keen to be part of the new Welsh prosperity within a broader European context."

Anthony Moreton

Property development and house-building

Margins remain good

PROPERTY DEVELOPERS and house-builders, in particular, are having a hard time of it at the moment. A cursory glance, for example, at the Bailey Group's most recent profits figures suggest that this company, which is a major player in house-building, in south Wales, *seems no exception.*

Turnover for both companies, Bailey Holdings and Bailey Investments, rose to £23m from £20m, but pre-tax profits dropped slightly to £1.3m from £1.5m.

However, given that the group funds its land purchases and other costs by borrowings, the company sees the year 1989-90 as having been a satisfactory one. Like the north of England, but unlike the south-east, house sales in south Wales are holding comparatively well. The group's higher turnover was eaten into by high interest rates and head office costs.

The spending on head office costs, particularly sales, the unusual nature of the south Wales housing and office market should mean that the Bailey group will weather the *adverse climate* well *in* 1990-91 without the likelihood of a serious erosion of profits.

Bailey Homes was established in 1979 by Mr Paul Bailey. Before this, Mr Bailey had spent over 10 years dealing in inner city refurbishment property.

Apart from renovating many properties, he had acquired over 50 residential homes included tenanted houses let on a rental basis. Between 1979 and 1983 the company expanded rapidly. It was primarily involved in building starter homes, many of them were sold to housing *associations*. Inadequate financial controls and over-building resulted in 1983-84 in a pre-tax loss of £278,009 on sales of £1.4m.

Arthur Andersen and Company was called in to prepare a background report for the company's bankers. Mr Paul Guy, who was then a manager with Andersen's, prepared the report. He subsequently joined Paul Bailey in June 1983 as the finance director, before becoming the managing director in 1985.

Between 1983-87 the company restructured *and consolidated.* Bailey Holdings was formed as an investment company with three subsidiary companies to improve financial control. These three were Bailey Homes, Bailey Developments and Bailey Properties.

This structure remained in *place until March* 1989 when it was decided to split the trading and investment activities into two new groups.

Bailey Holdings is now entirely separate from the investment interests and has two 100 per cent owned subsidiaries, Bailey Homes (House-building) and Bailey Developments PLC (Commercial Property Development). Shareholdings of all parent companies are 70 per cent P E Bailey and 30 per cent P M Guy.

During the 1980s, the company tightened up financial controls, recruited top calibre management, and tried to broaden the group's activities in property development. To improve cash flow it built houses for housing associations on a design-and-build basis. It broadened its house-building into all ranges and expanded into industrial office and retail.

The group estimates that in 1989 there were about 5,250 housing completions in south Wales. None of the big national companies completed more than about 10 per cent of this total each.

Bailey Homes built 193 homes and sold 228 in the year to April 1990. These were what might be called speculatively built houses or not pre-sold houses. It also built some hundreds of design and build houses.

The 228 ranged from £48,000 starter homes to four to five *bedroomed detached houses for* £250,000. Stella Alford, the development director of Bailey Homes, says that demand at the top range was surprisingly strong. It came from new managers involved in management buy-outs, or starting out in business for themselves.

Ms Alford was looking to build 400 houses in the current year, admits that selling this number might be slightly optimistic given the high level of interest rates. Nevertheless, she says demand is holding up and the medium term outlook is good.

There are a number of reasons for this. The existing housing stock is poor, particularly in the Valleys, and can do with upgrading.

Second, a larger proportion of people in south Wales own their existing homes than elsewhere.

Third, because housing has been cheap or depressed in the past if people do not own their own homes they often have low mortgagees and are in a position to expand.

Stella Alford says because of the current economic climate everything is much harder to sell than was than it was 18 months ago. But prices have not been squeezed, things have not reached a stand-still and the company has not started going in for joint equity sales like some of the big national house-builders.

Moreover, margins are good because land is cheap. The top price for an acre of land with planning permission for residences is about £200,000. This compares with a £1m for an acre with permission a density of around 10 houses virtually anywhere in the south-east, at least until a year ago.

Land, because it is degraded and qualifies for government aid, or because a local authority is anxious that houses be built, can often be much cheaper than £200,000. In one instance the company paid some £5,000 an acre, but it did have to spend money in other ways to close the deal. An insistence on putting in roads or improving the infrastructure is often a condition of building with local authorities. It is what they call planning gain.

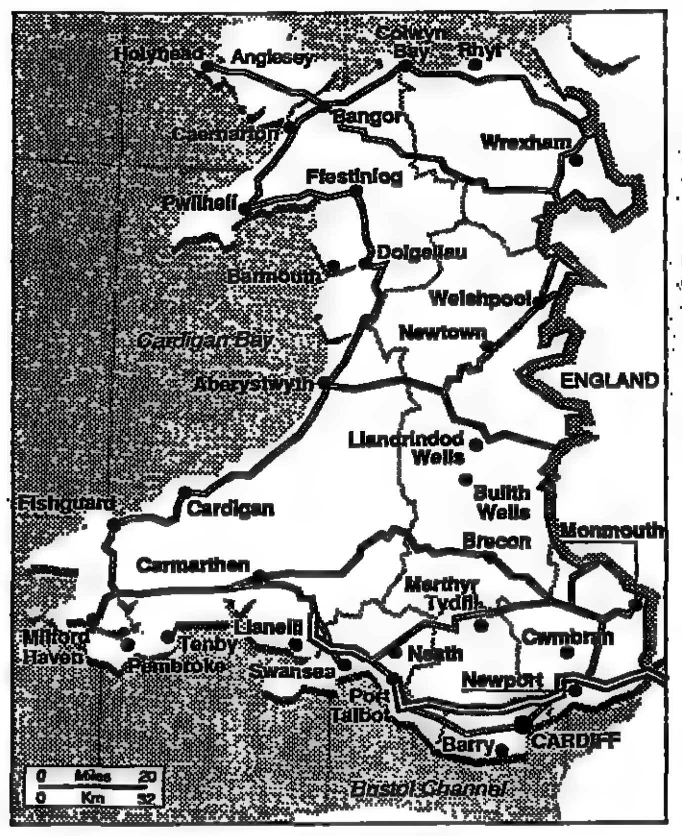
Ms Alford reckons the company builds houses on a gross profit margin of between 18 to 25 per cent. This comes down to a net margin of 11 per cent.

At the St Mellon's Industrial Park, ten minutes drive from Cardiff, where the company has its headquarters, a fourth office/light industrial block is currently in abeyance for lack of funding. Other developments are also on hold. Lettings and sales on completed developments are much harder work than 18 months ago.

However, Mr Saunders says he will be disappointed if profits do not move up to £1.5m in the current year and are on target to reach this figure.

The company seems in no danger of repeating its experience of the early 1980s because it is not over-reaching itself at a hard time. Longer-term, with the Cardiff Bay Development Corporation set to develop in an area of 2,700 acres around the bay, the outlook is very rosy.

Focus on the Bailey Group by STEWART DALBY



KEY FACTS AND ECONOMIC INDICATORS*

	Wales	UK
Area (sq km)	20,766	242,407
Population (thousands, 1988)	2,857	57,065
Population density (persons per sq km)	137.6	235.4
Population growth (1981-88)	1.5%	1.8%
Age structure (1988)		
below 16 years	20.3%	20.2%
above pension age	19.4%	18.2%
Average household size (1987)	2.64	2.56
GDP (1988, £m)	16,311	394,787
GDP per head (£)	5,709	6,918
GDP per head index	82.5	100
Economic activity rate* (1988)		
MEN	69.0%	74.2%
WOMEN	44.6%	50.9%
Structure of labour force (1989)		
Employees in employment	75.8%	80.7%
Self employed	14.6%	11.5%
Unemployed	7.2%	6.2%
Govt training schemes	2.4%	1.6%
Employees in employment (by standard industrial classification group and sex, 1989,%)		
MEN		
Agriculture and energy	8.2	5.0
Manufacturing	32.7	30.3
Construction	7.6	7.8
Distribution and transport	21.7	26.0
Other services	29.8	30.9
WOMEN		
Agriculture and energy	1.6	1.6
Manufacturing	15.9	15.0
Construction	1.0	1.2
Distribution and transport	25.8	26.5
Other services	55.7	55.7
Earnings (average gross full-time, 1989)		
MEN	£238.60pw	£268.70pw
WOMEN	£168.00pw	£181.90pw
Education (1988)		
4-year-olds in education	89%	73%
Pupils aged 16 staying in education	60%	62%
Pupil/teacher ratio primary	22.3	21.9
Secondary	15.4	15.0
GPs per 1,000 of the population (1988)	0.56	0.55
Housing by tenure (1988)		
Owner-occupied	69%	65%
Rented from local authority or new town	21%	25%
Rented from private sector	7%	8%
Rented from housing associations	2%	2%
Index of dwelling prices (1988,1985=100)	142	167
Building society borrowers		
Average dwelling price, (1988)	£34,200	£49,400
Cars per 1000 population (1987)	307	324

*Percentage of population aged 16 or over in labour force

Source: CSO Regional Trends

URBAN REGENERATION

Controversial plan for Cardiff Bay

MOST URBAN velopment corporations in Bain are contentious for or reason or another.

London Docklds has been criticised for owing too much speculat house and office buildingwithout the proper infrastrure. The Merseyside UDC heen knocked for its policy emphasising tourism and lere: a strategy which after rly a decade has not generd as much private investme as desired.

Arguably i most controversial UDC hough, is the Cardiff Bay velopment Corporation. This not because, with a proted 2,700 acres within its rit, it is the largest urban reneration project in Britain side London and is one of thbiggest waterside schemes forenewal in Europe. Nor is it beuse it is funded – at a tenta cost of £350m – through tWelsh Office. It is because he masterplan involves arrage across Cardiff Bay create a non-tidal lake of acres. This would give Carf some eight miles of watert.

This h upset people locally and nationally for a number of reasons. Cardiff Bay has a very high tidal drop – some 40 feet. At low tide the bay has extensive mudflats which are the home of wading birds. Environmentalists have called for the protection of the area and it has been designated a site of special scientific interest.

A second objection has centred on water quality. Algae and other problems could develop and possibly cause pollution. Third, there have been fears of flooding. Much of Cardiff is low-lying and there has been flooding in the past. Fourth, there are worries about the ground water table. An artificial lake could affect this, it seems, causing dampness and water to occur in basement dwellings.

After exhaustive research the Development Corporation has managed to allay fears on most counts. There are lots of similar habitats for the wildlife close to Cardiff, so the wading birds will not suffer. As for the quality of the water, this is a technical matter which can be managed.

On the question of flooding, a barrage across the bay could help control the water level. The flooding would be no worse with the barrage, the CBDC feels.

This leaves the problem of the ground water table. A parliamentary select committee earlier this year reported that the private bill necessary for the project should be passed by parliament but it called for further research into environmental impacts.

Mr Geoffrey Inkin, chairman of the Cardiff Bay Development Corporation, says the ground water table is a "substantive issue", but feels that the problems can be resolved. He says this has delayed the bill, but he is confident it will go through. It will then remain for the Secretary of State, currently Mr David Hunt, to say whether there will be public funds to build the barrage. It is estimated it will cost £120m.

It is a common misconception that the regeneration will not take place without the barrage. But this is not the case. Cardiff was one of the great coal and steel exporting ports. There is still a working dock run by Associated British Ports, but it is on a much reduced scale. Vast stretches around the bay are derelict and semi-derelict, as well as degraded.

Part of the rationale for UDCs is that old dock areas such as Cardiff require public funds to get the land and infrastructure up to par for development. Private developers rarely have the wherewithal or interest in doing the reclamation work.

Since it was set up in 1987, the CBDC has been buying up land. It reckons that 1,000 acres is developable within the 10 years during which its writ is supposed to run. A UDC has vesting rights or compulsory purchase rights. These are rarely used. It can buy land, however, at current use costs. So far the CBDC has acquired 600 acres, some of it very cheaply. The idea is that eventually it will be sold on to developers, improved, but at enhanced cost.

In this way the Government can recoup some of its outlay. Mr Inkin reckons land sales Certainly would bring in £75m to £100m, although others believe the figure would be much higher.

In addition, the CBDC has signed a development agreement with ABP for this company to develop 160 acres it owns within the CBDC area. The port itself is outside the area. The Corporation is contributing £25m to the cost of building an underground section of a link road going through the area.

Some houses and old buildings have been refurbished in the Tiger Bay dock area. Houses have been built in the Penarth marina. At Atlantic Wharf, one old warehouse has been turned into the Celtic Bay Hotel, and a handsome listed building which was owned by Spillers has been converted into a block of high quality flats.

The corporation has promised that of the 6,000 houses to be built 25 per cent will be social housing, low cost, for rental or with shared equity. The corporation is building 300 low cost houses on a seven-acre site. Although some companies will have to find new homes, no residents will be moved in the developments.

Most of this, however, is nibbling at the edges of the main projects. As the corporation sees it, the barrage is necessary to turn Cardiff into a first-class capital city comparable with any in Europe.

The barrage will make the difference between creating a fully integrated maritime city and having just a refurbished waterfront as an adjunct to established city centre.

The planners want Cardiff to be rather more like the comprehensive developments in US cities such as Baltimore and Boston than, say, like Liverpool and Southampton where critics feel the waterfronts have not been properly locked into the rest of these cities.

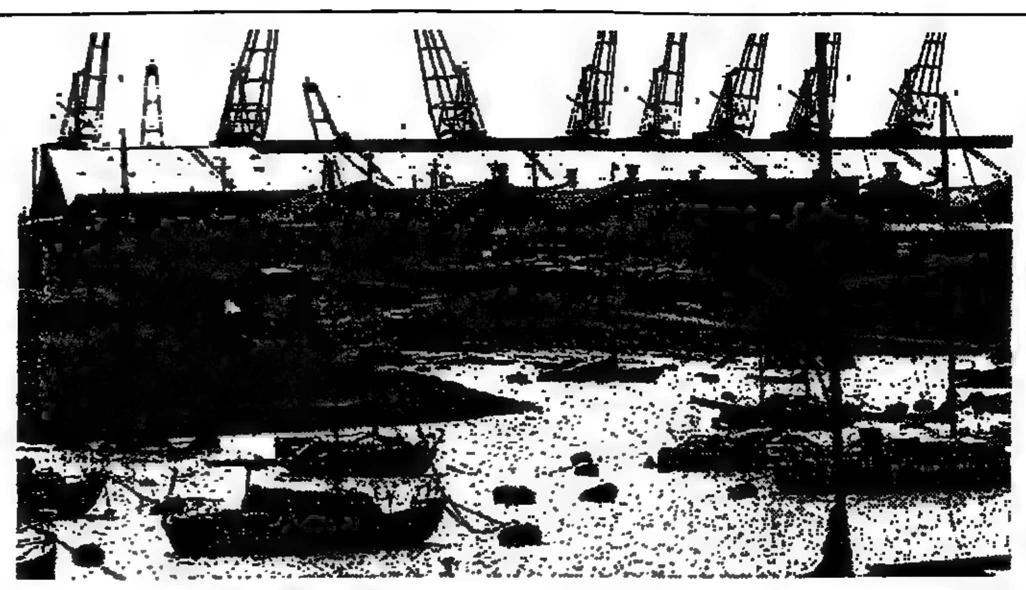
The proximity of Cardiff Bay to the city centre makes this eminently possible over time. The masterplan includes developments in Dumballs Road and Butetown. This would link the existing centre directly with the soft edge of the lake if all goes according to plan.

The CBDC has been at pains to get the overall strategy right. Urban planners competed to design a strategy. A review panel drawn from different walks of life comments on the architectural and aesthetic merits of development proposals.

When it is fully developed, say in 12 years, Cardiff Bay should be a mixture of offices, shops, leisure, housing and a new opera house for the Welsh National Opera. The hope is there will be investment of £2bn, meaning a leverage multiplier of 4 or 5 to 1 as the the Americans would say. Some 30,000 jobs could be created.

So far, some £200m has been committed by the private sector, so the project is on course. But it is still a little uncertain whether it will be the integrated maritime city that dreams are made of, or something less.

Stewart Dalby



Glyn Genin

Against a background of dockyard cranes, yachts ride at anchor in Cardiff Bay

Wlsh Development Agency

Vaterstone's legacy

MR vid Waterstone left the Wel Development Agency last onth after six and a half yea as its chief executive. There were momentous years in the usiness development of Wa.

e scars of the steel industry slimdown, and the closure of al mines – which continue throughout the 1980s – ha left Wales demoralised. T agency's main task was to cate jobs, no matter what s of jobs.

We were just shooting erything that moved," plains Mr Waterstone. The succeeded. Unemployment Wales is still falling – elsehere it is rising again.

Recent statistics from the Welsh Office show that manufacturing output has grown aster in recent years than in ther regions, and construction was also outpacing the national statistics last year. Growth in services has been particularly marked.

The agency could not be the sole mover. But its role – enhanced by the high profile that went with Mr Peter Walker's period as Welsh Secretary, and its powers of co-ordination in promoting Wales – has been considerable in the last few years. For a long time, the Scottish Development Agency was seen as the best. SDA executives in turn admit that they had learned a lot from the professional approach of the Industrial Development Authority of Ireland.

Welsh unemployment is still falling – in the UK it is rising again

Gradually, the WDA foui its own way. Its profile i international circles rose. Te critics, however, believe tit quality was sacrificed for quntity in terms of jobs.

Mr Waterstone says: "he Scots were very targeted tin, and I thought very caretly whether we should do he same thing. But the Wsh economy was less develed than Scotland. We were illding a basic structure. Wdid change direction quite siificantly after a time. We ave become quite picky abouthat we do."

The agency today concentrates on securing high-paid jobs for Wales than it ould afford to do in the earl980s. The tie-up between Irerial College, London, with new science park in Newrt is very much part of tl new, high quality approa "We raise the finance, theyrovide the brains."

Mr Waterstone doe vonder whether the agencshould have changed ta more quickly than it did. He hastens to add that the cour of jobs, jobs, jobs, was not ermined by any political interence. "I would doff my hat toe secretaries of state," h says. He admits that he wa surprised that there was not re political guidance. From he beginning he was "more less" left to get on with it.

Politicians like publicise investment by fogn companies as an indicat of success. Wales is no exction. Japanese investment, particular, has been laud But Mr Waterstone poin ut that the US, Germany a France are all bigger inve s in Wales than the Japan

Foreign-own companies are important, they employ less than 7 p cent of the Welsh workfc. "The real thing has beeto get Welsh business going He is pleased that Wales is near the top of the leag for business start-ups; a f years ago, it was bottom.

Financial ices jobs have been brougin, most with companies h have moved their main es out of more congested p of the country. The M4, anderefore the relative closeness of south-east Wales to London and the suth-east, is "our own good rtune."

But geography is only a part f the story. Mr Waterstone ays the Welsh have the 'Celtic work ethic." He praises the industrial relations record – "superb" – and the co-operation of the Welsh TUC. The message got around by word of mouth, perhaps the best advertisement of all.

There was also the WDA's public relations budget, which averages about £750,000 annually. Mr Waterstone decided, early on, that the perception of Wales – battered, without morale – had to be changed.

His recommendation to other development bodies, however, is that advertising alone is not enough. "And you have to tell the truth. We worked at creating stories of success, selling them, having TV programmes made about them. We had to change the perception of Wales, internally and externally."

The WDA has fingers in many pies. Its property portfolio is the largest in Wales. It is one of the biggest industrial property developers in Britain. So far – unlike the SDA and English Estates – it has not been told by the Government to sell off the property. In fact, it is continuing to build in parts of Wales.

"I would doff my hat to the secretaries of state"

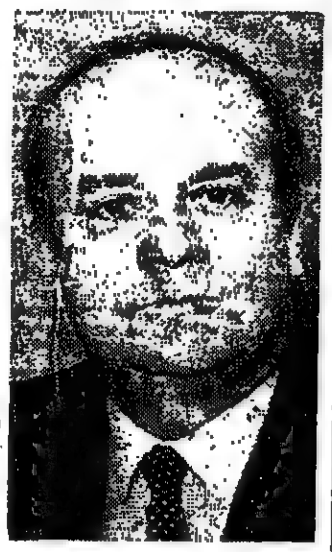
Not all its ventures have been successful. In particular, certain high risk investments in companies in exchange for equity led to some embarrassing losses. "As venture capitalists, we deliberately went into areas which the private sector would not back," says Mr Waterstone. The venture capital interests, taken as a whole, are now just about breaking even.

Wales still has some way to go to catch up with the rest of the country in certain respects. Gross Domestic Product per head is well down the league, disposable income likewise. There is still a lot to do to bring parts of Wales up to the standards enjoyed in the more prosperous parts of Wales.

The WDA, its budget successfully defended before the Treasury by Mr Walker, has had a charmed life. Mr Waterstone, a former Foreign Office and British Steel executive, and not a Welshman, gave it the managerial and promotional skills that are even more important than the funds.

The big question following his departure, and that of Mr Walker, is the shape of the future. As Welsh prosperity increases, and the SDA has been broken up, it is a fair bet that the Welsh Development Agency will not be left to carry on in the same way.

Hazel Duffy



David Waterstone, job-finder

FINANCIAL SERVICES

Influx of big names

Around 80,000 people are now employed in the expanding financial sector, says ANTHONY MORETON

FIVE WEEKS ago a study was commissioned by the Welsh Development Agency and a group of public bodies to see how it might be made easier *for women to return to work in* Wales.

For a country that has often seemed to think only of the employment needs of men, the investigation will break new ground.

The study, which is to focus on four areas – Cardiff, Carmarthen, Cardigan and Merthyr Tydfil – is a tacit recognition that the changing nature of the Welsh economy, particularly in south Wales, means more women will be needed at work in the years ahead, especially in the growing financial services sector.

The danger that an influx of new companies may soak up the available workforce and in consequence push up wage rates to uneconomic levels already worries companies in Wales. Mr Bruce McDowell, *general manager* of TSB's general insurance division, which relocated to Newport two years ago, says: "There could be a shortage of labour in the 16-29 year-old range. We have established links with the Gwent Tec as well as the local schools and colleges to meet this problem."

The continuing need to find labour for the service industries flowing into south Wales *comes despite a large rise in* the female workforce. Between 1984 and 1987, the last year for which official figures are available, the number of women entering employment rose by 25,000. That figure, according to Mr Phil Morgan, director of the South East Wales Financial Services Initiative, "is known to have increased sharply since then. Encouraging women back to work is vital to improving the economy of Wales."

That economy has changed radically with the emergence of a growing financial services industry in south Wales. Around 80,000 people are now employed in the sector in Wales as a whole and by the year 2000 that number is expected to have risen to 100,000.

Yet the area, and especially Cardiff as a capital city, has never had a strong financial services sector. Exceptions, such as the long-established middle-range Principality Building Society, Chemical Bank, Chartered Trust and the Bank of Wales, originally founded by Sir Julian Hodge and now 75 per cent owned by the Bank of Scotland, merely point up the deficiency.

Welsh businessmen have traditionally looked to London for financial and professional services. An attempt four years ago by the WDA together with Charterhouse Venture Fund, Citicorp and others to set up a one-stop venture fund quietly folded when too few quality applicants sought its services.

Two years ago Mr Peter Walker, then Welsh Secretary, launched the South East Wales Financial Services Initiative, in conjunction with the local authorities, the WDA and the Cardiff Bay Development Corporation, to develop the area as a financial centre.

TSB was, in a sense, a role model of the new industry. The company had conducted a trawl of some 60 potential sites around Britain before choosing Newport. Its arrival pre-dated Mr Walker's initiative but it was the sort of company he wanted to see in the area.

So, too, is the Bank of Wales. "Our business has grown very rapidly over the past three years," says Mr Eric Crawford, its chief executive. "We still see the future as extremely *buoyant and confidence is* good." But he warned that businessmen were taking longer over making investment decisions, especially in the property field.

The personal drive put behind the financial services initiative by Mr Walker and continued by his successor, Mr David Hunt, led to an influx of high-class names into the area. National Provident Institution, the mutual life assurance group, relocated its group pensions activities from Tunbridge Wells in Kent to Cardiff, perhaps the biggest newcomer in terms of numbers employed.

Others to choose Cardiff include National Investment Group, the regional stockbroking group, which transferred a back office operation to the city before selling it on to France's Societe Generale. Banque National de Paris bought Chemical Bank's UK mortgage operations. Development Associates Group has joined 3i in the venture fund field, D C Gardner has come in with bank training and Noble Lowndes, the Sedgwick group and Willis Wrightson have strengthened their insurance activities while the broking field has been enhanced by the arrival of Bell Lawrie White, the regional arm of merchant bank Hill Samuel.

The plum, though, was the decision of N M Rothschild to open a Cardiff office with Mr Glynne Clay, a leading local businessman, as managing director. With the exception of an office in Manchester, and that partly for historic reasons, Rothschild has never had any representation in Britain outside London. "Only Cardiff has the sort of future that interests us," Mr Michael Richardson, *the bank's managing director* and chairman of the Welsh operation, said at the time.

The growing importance of these moves was reflected last year when a Midlands engineering group used Cardiff professionals – accountants Ernst & Young, solicitors Morgan Bruce and Barclays Bank's Cardiff-based corporate finance group – for a management buy-out.

The success of Mr Walker's *financial initiative* has already led to its being extended for a further period; it has now been geographically extended to Mid-Glamorgan and Swansea, which has attracted Lloyds Bank's headquarters operation that handles in-house mortgages from London.

The initiative will place more attention on location, says Mr Morgan. "People are looking at Wales as a viable alternative. In the past six months we have been finding ourselves increasingly on the lists of companies that would not have considered coming near south Wales in the past. We are increasingly making the jump from being on the preliminary lists to being on the short lists."

The study to identify ways of bringing married women back to the workforce is only one move being made by Mr Morgan's team to ensure the labour market is adequately supplied. The professional base is also being strengthened, with a steady flow of accountants, solicitors, brokers and others in the financial field.

The dramatic rise in the financial services sector "has been the most significant change in the economy of Wales," says Mr Hugh Thomas, partner-in-charge of Price Waterhouse Wales. "The level of private sector investment in Wales has never been higher and has helped the emergence of 'home-grown' developers."

Mr Gwyn Davies, a partner in Cardiff lawyers Edward Lewis, adds that "local firms can do everything except Eurobonds. The expertise here, now, is very widely based."

With property readily available along the M4 corridor, the area also has a further trump about to be played. The development of Cardiff Bay, some 2,700 acres of the southern half of the Welsh capital, will create an attractive working environment. Several investment banks and other financial institutions are looking seriously at Cardiff Bay. Few areas have the capacity for financial growth as this part of Wales.

Left: an industrial image of the past: a deserted mine at Trehafod, but new technology industries are emerging. Pictured top right at AB Electronic Products Group is Peter Phillips, chairman, with Edwin Merrette, managing director — "our quality is as good as anything the Japanese or Germans can achieve," says

NEW TECHNOLOGY INDUSTRIES

Emphasis on research

The list of companies working in high technology areas in Wales is now extensive

ALIGN-RITE is a small company tucked away at the back of the science park in Bridgend. It has been there since 1985, when its Burbank-based US parent set up an offshoot to make optical photomasks and provide design services for the semiconductor industry.

The company has a workforce of 70, a number that will rise by 15 in the near future. Of these, some two-thirds are graduates or possess high-level academic achievement.

Align-Rite is typical of the "high-tech Wales" that is emerging. The country may once have been covered with coal mines and the high stacks of the industrial revolution but that is largely a thing of the past. Not all the new companies are as technological as Align-Rite but they are increasingly part of an environment in which R & D is being generated within Wales.

Mr Jim MacDonald, Align-Rite's chairman, says that "our business plans and aspirations have come to full fruition. We have successfully surpassed the five-year goals we set for our European endeavours in 1985." The company has spent more than a year in refining its manufacturing processes and procedures, a step which had led to it being granted British Standards Quality Certificate BS 5750 last year.

Align-Rite has made one other, possibly unique, contribution to the Welsh economy. The group's international headquarters have been moved from Burbank to Bridgend. Few Americans have made such a dramatic business gesture as Mr MacDonald.

If Align-Rite is unique in that move, it is far from being a lone player on the Welsh high technology scene. Facing its plant in Bridgend is Spectrum Technologies, a spin-off from British Aerospace, which is developing lasers.

"High technology in Wales has improved enormously in the past half-dozen years," says Dr David Graham, director of technology marketing at the Welsh Development Agency. "There has been an explosion of companies active in R & D. This is partly because company profitability has risen. Partly, also, it reflects the realisation among managers that it is impossible to succeed in the technology field unless R & D plays an important part in their activities."

Other companies that have made their mark include those like Rockfield Software, which employs 50 people in Swansea investigating structures for stress. And Micro Materials in North Wales, which measures hardness on thin film. As well as Epitaxial Products in Cardiff, a specialist in indium phosphide, a product at the forefront of semiconductor research.

The biggest single research centre run by a public company belongs to AB Electronics at Newport. One of the largest manufacturing companies in Wales, AB Electronics is based at Abercynon in Mid-Glamorgan. It employs over 5,000 people world-wide and is a world leader in the assembly of electronic systems and equipment using surface-mount and conventional technology. It makes a range of connectors, microcircuits, electrical wiring harnesses, electronic systems and power supplies.

It is also one of the relatively small number of companies whose technical director occupies a seat on the main board. Professor Derek Embrey runs the Henry J Kroch Technology Centre at Newport, named after the man who built up the company and is now its president; as a board member Prof Embrey *plays a full part in* company policy, something that not all research directors in quoted companies do.

The emphasis on R & D is not the company's only route to success – "you have to get your quality right," says Mr Edwin Merrette, the managing director. "We have certainly done that. Our quality is as good as anything the Japanese or Germans can achieve."

Quality is something that Mr Alfred Gooding, chairman of Race Electronics, a fast-growing company in the surface-mount technology field, also emphasises. No-one is harder to impress than a Japanese manager but Race has been so successful that Mr Gooding has already entered into several agreements with Japanese concerns and was the first British company in which the Japanese took an equity stake – reflecting their supreme confidence in the group.

Quality in Wales has been much helped by the setting up last year of the Wales Quality Centre as well as six centres of excellence to stimulate R & D at colleges in Cardiff, Swansea and Bangor. At Bangor, for instance, the Biocomposites Centre, under its director Dr James Bolton, is examining the use of plant fibres in structural composites. It is, Dr Graham says, "undoubtedly world-class."

The list of companies working in high technology is extensive: Amersham International in Cardiff, Newbridge Networks in Newport, Control Techniques in Newtown, the *Robertson Group in* Llandudno, Pilkington in St Asaph, Biotal in Cardiff, Molynx in Newport, Seal Technology Systems in Cardiff, British Steel in Port Talbot, Inmos and Mitel in Newport. The names could be multiplied.

"The most important factor is that these leading-edge technological companies have shown they can attract key staff and trade on a global basis from Wales," says Mr Ken Poole, of Price Waterhouse Wales. This strength on the ground has led to the Welsh Development Agency changing its emphasis this year. It has moved from support for start-ups to switching its main backing to growth companies. There will continue to be support for start-ups, such as Abbey Bio Systems in Swansea and Bridgend's Spectrum Technologies, but now the WDA, Dr Graham says, will be seeking to identify limitations to growth and ways of overcoming them.

"One of the main problem areas is management itself," Dr Graham says. "In small and medium-sized businesses, strategic management is often a missing ingredient. This leads *on to an inability to tackle* dynamic markets, especially those in the higher value areas, and an inability to exploit technology, new or otherwise."

In marketing, Dr Graham has identified gaps which can be plugged. In particular the WDA is putting great efforts behind getting businesses to "think European." It offers assistance in finding agents or partners in Europe and has especially strong links with Baden-Wurtenberg following the ties forged between Wales and this West German region by Mr Peter Walker when he was Welsh Secretary.

In all this trend towards higher technology, the influx of Japanese concerns must not be under-estimated. Although most of the 31 Japanese companies in Wales, *with the notable* exception of Sony, undertake little direct R & D, they have been influential in raising standards among their local suppliers.

Another important influence has been the development of university-associated science parks in Wales. The Swansea Park has been the home of a number of growing companies. Another at Aberystwyth has had its successes while a third at Wrexham has developed a speciality in medicine and health services. That speciality will be extended when a medical innovation centre is built alongside the University of Wales hospital, a teaching hospital, in Cardiff. Perhaps the biggest influence, though, is still to come. The imminent *arrival of a science park in* Newport, run by London University's Imperial College of Science and Technology, one of the world's leading scientific and technological colleges, will enormously upgrade the role of research and development in Wales. The Imperial Science Park will become one of the leading centres of excellence in Britain, and that cannot do anything but good for the Welsh economy and the whole image of Wales in the outer world.

Anthony Moreton

Mr Alfred Gooding, chairman of Race Electronics.

Jobless fall above UK average

Hope stirs in the valleys

THE WELSH valleys have an Orwellian feel. Not the George Orwell of "1984" but the Orwell of "The Road To Wigan Pier."

The enduring images that spring to mind are of great hardship and poverty linked to the mining industry, with poor health standards.

In the 1920s nearly half the working population of Wales was associated with coal and steel or in transporting coal and steel across Britain and to the rest of the world. One adult male in three worked in the coal industry.

Most of the mining jobs have now disappeared and the steel industry is much reduced. But the legacy of these industries has been evident in the degraded landscape and environment and the high levels of unemployment, poor housing and bad health.

Surveys in the mid-1980s showed that unemployment in many spots was over 20 per cent. Adult male unemployment was nearer 30 per cent. Income levels were among the lowest in the UK outside Northern Ireland. More than half the deaths of men under 65 in Mid-Glamorgan were due to heart disease.

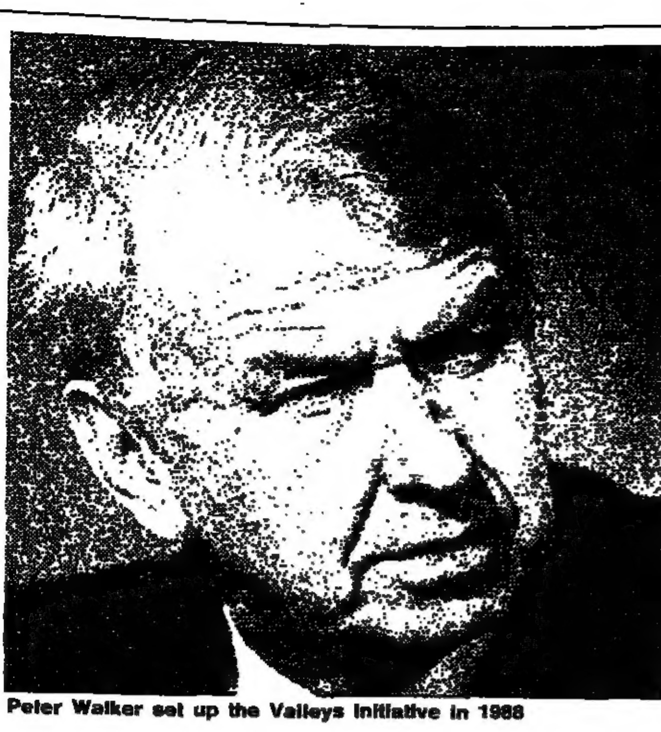
In Mid-Glamorgan more than 36 per cent of women and 41 per cent of men smoked – both above the national average of 31 and 35 per cent respectively. In the Cynon Valley 16 per cent of houses were deemed unfit for human habitation.

To help address the special problems of the valleys, Mr Peter Walker, then Secretary of State for Wales, set up his Valleys Initiative in 1988.

The area to be covered by the new programme had a population of 700,000, not much smaller than Liverpool and larger than Sheffield. But the area covered a dozen or so valleys and involved 17 district councils and five county councils.

The Initiative said a new quality of life would be brought to the valleys by reducing unemployment by 25,000 to 30,000, by removing the dereliction of the past, improving the existing housing stock, encouraging music, the arts and recreation and ensuring that the local community spirit is retained and enhanced.

Between 1986 and 1988 unemployment in the valleys decreased by 13,000 or 27 per cent, faster than the fall in the UK or Wales as a whole. Since 1979 some 350 new Welsh Development Agency factories have been built and occupied. In the same period 2,900 acres of derelict land have been cleared and replaced by grass, trees and new buildings. By 1988 45,000 homes had been improved and those lacking the basic amenities halved.



Peter Walker set up the Valleys Initiative in 1988

In fact, the programme came in for criticism from some local councillors. They claimed it was a cosmetic marketing exercise by Mr Walker. He had merely re-packaged the aid and assistance which would have flowed into the valleys anyway.

South Wales is the nearest major region to London to qualify for regional assistance. Apart from Northern Ireland, it receives more aid than anywhere in the UK. In the first two years of the programme it is estimated some £500m was pumped into the valleys under one scheme or another.

Mr David Hunt, the new Secretary of State, has yet to spell out his attitude to the Initiative and the criticisms, but the original three-year programme has been extended to five years.

Other local government officers feel the complaints about the programme are unfair. Mr Tony Roberts, recently appointed chief executive of the Cynon Valley District Council, says: "Whatever people might say about the Initiative it has focused attention on the particular needs of the valleys."

'If the Cynon Valley were in a game of cards, it could claim it was holding four aces'

The Initiative represents a fine tuning of the schemes to cover all aspects of life, although some of the projects are new or enhanced versions of older ones. There is a 50-point programme which covers everything from housing, health and social services, environment, roads, tourism, leisure and the arts, education and training to the means of creating a new economy.

The Cynon Valley, which is 25 miles north of Cardiff, is in many ways a microcosm of the valleys. Some 4,000 jobs were lost in the mid-1980s, which in a population of 65,000 meant unemployment shot up to more than 20 per cent. These jobs losses came not just from mine closures but also from the shutting down of branch factories, particularly in engineering.

Recently, however, the district council produced a brochure spotlighting the companies which have since been attracted to the valley. These include Hitachi, AB Electronics, Gooding Sanken, Dunlop, Pirelli, Sheer Pride and Mayhew Chickens.

Where the Cynon Valley differs from many of the other valleys is that despite these successes it has lagged behind in terms of outside investment.

However, like the region, the valley offers a range of grants, loans and other assistance. These include WDA-built factories, selective regional assistance, and for small companies regional enterprise grants. The valley also qualifies for EC help from the European Steel and Coal Community Fund.

In addition, the Cynon Valley can offer plenty of workers. Unemployment has come down, but it is still 11 per cent, twice the Wales average.

Communications are now good. The A470 is dual-lane and links up with Cardiff and the M4. Heathrow Airport is two hours' drive away.

Perhaps most important of all, there is cheap land. The Cynon Valley is wider than most and because there has so far not been a large influx of companies, more than 100 acres of serviced land are available, from as little as £30,000 an acre.

According to Mr Roberts if the Cynon Valley were in a game of cards, it could claim it was holding four aces. No other valley, he says, can offer land, labour availability, the range of assistance and such good communications.

Under the chairmanship of Mr Ted Merrette, managing director of AB Electronics, a Cynon forum has been set up by 60 local businessmen which will preside over a Business in the Community project.

In addition, the Welsh Development Agency together with the district council are putting their weight behind a more aggressive marketing to change the valley's negative image.

Stewart Dalby

ELECTRICITY PRIVATISATION

Search for a brighter image

THE PRIVATE sector in Wales is due to acquire a big new addition early in December when South Wales Electricity makes its debut on the Stock Exchange.

The company's progress in its early years will be closely watched, not least by those industry observers who are predicting that it could be one of the first of the newly privatised electricity companies to lose its independence.

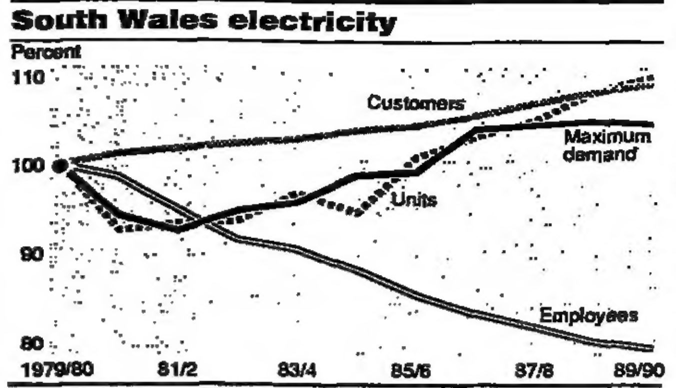
These sceptics point to South Wales Electricity's status as the smallest in financial terms of the 12 regional electricity companies in England and Wales to be privatised. Its geographical boundaries extend from Gwent in the east to Dyfed in the west and from the Bristol Channel to central Powys. (The Chester-based Manweb covers North Wales.) Critics also stress some worrying signs of weakness.

Not only did South Wales Electricity lose fully 37 per cent of its supply business in the initial burst of competition in the industry earlier this year. It also turned in one of the worst performances when the regional companies announced their final results as nationalised industries in July. Historic cost operating profit fell by 22 per cent to £21.2m in 1989-90; the decline was 59 per cent to £4.3m on a current cost basis, giving a return on assets of just 1 per cent.

Yet any threat to South Wales's electricity independence would be fiercely controversial in Wales, especially if it took the form of a takeover from one of the English-based regional companies. South Wales Electricity's top management, proud of what they see as the company's achievements, would almost certainly fight hard to prevent it being swallowed up.

The company has been fighting to explain all summer that its loss of much of the supply business of large industrial customers such as British Steel and BOC will not have a big impact on its profits. Under the electricity industry's new structure, almost all the regional companies' profits flow from the distribution of electricity over their local wires, which remains a monopoly. The final supply of electricity to customers, including the largest, is only marginally profitable.

South Wales electricity



Indeed, South Wales Electricity says it would have lost money if it had tried to match some of its competitors' bids for supply business in its area. Nevertheless, senior managers like Mr Wynford Evans, the chairman, acknowledge that they have had to counter the impact on both staff morale and the company's public standing of the loss of the supply business.

The South Wales economy will largely determine the future path of the company's profits, since the amount of electricity distributed along its wires will be broadly decided by the health or otherwise of the local economy.

Here, too, South Wales Electricity suffers from an image problem, since it is seen as operating in an area that is over-dependent on declining heavy industries, such as steel and coal. Industrial customers account for 57.4 per cent of the company's sales, compared with an average throughout England and Wales of 36.7 per cent.

This image is in many ways misleading. Llanwern and Port Talbot, British Steel's main plants in South Wales, are now among the most efficient in Europe, with their future further secured by the rundown of the rival Scottish plant of Ravenscraig. The South Wales coal industry is already a shadow of its former self, while the economy has been busy diversifying.

Not only has South Wales proved highly successful at attracting inward investment, particularly from Japan, it has also begun to build up its small commercial sector, with organisations such as the TSB and the Patents Office relocating there. Nevertheless, the commercial sector, which has contributed much of the growth in electricity demand in several of the English regional companies, still accounts for only 15.2 per cent of South Wales Electricity's custom. This compares with an average of 25.9 per cent in all of England and Wales.

One of the more serious problems facing the company is the possibility that many of the large industrial companies in the region may begin to generate their own electricity. The new electricity regime encourages such a move, yet it could eat heavily into South Wales Electricity's profits. Unlike the loss of the supply business, it would directly reduce the amount of electricity passing over the company's distribution network.

Another task facing the company is to sort out its retailing side, which made an operating profit of just £0.2m on turnover of £28.2m last year. South Wales Electricity has been among the poorer performers among the regional electricity companies in terms of retailing returns on turnover and average net assets. It has been introducing new shop styles and has opened superstores outside Cardiff, Swansea and Newport. Nevertheless, it may have to review its retailing operations, particularly in the sparsely populated areas of west Wales, during its early years in the private sector.

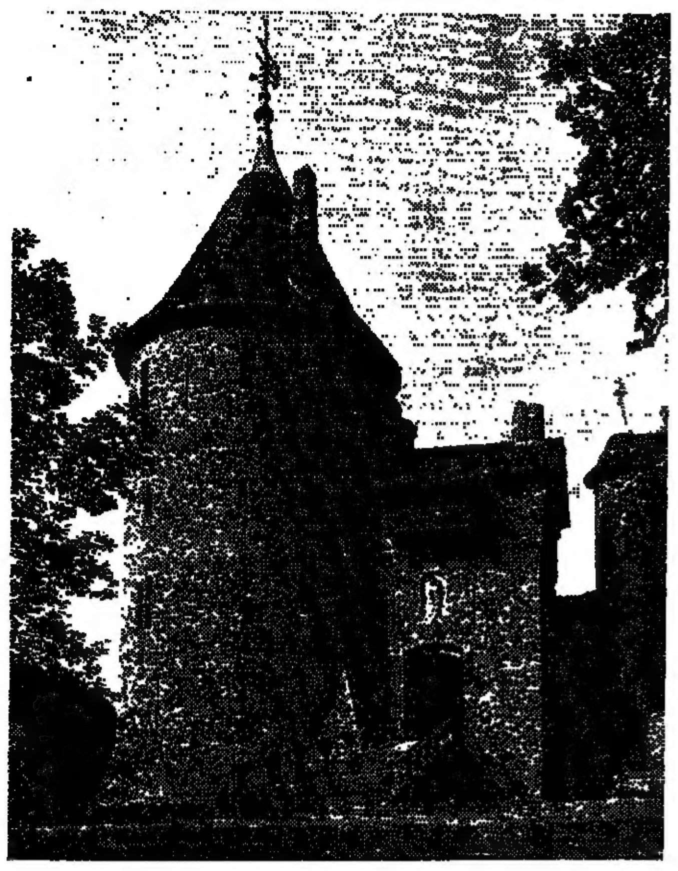
Overall capital spending jumped 34 per cent in 1989-90 to £53m, as the company continued its programme of replacing ageing assets. But the strain placed on the company's resources by capital spending is expected to be containable since the programme is forecast to reach a plateau in 1992-93. However, productivity improvements may also be approaching something of a plateau: they have been above the industry average in recent years, with staff numbers down 8 per cent to 3,770 in five years.

The City remains a little puzzled by the company. UBS Phillips & Drew, one of the few large City firms which is "independent" because it is not acting as a broker to any electricity company, describes South Wales Electricity as "a high risk investment compared to the average of the distribution companies." By contrast, Smith New Court, joint broker to the 12 companies, projects "moderate real earnings growth" for the company's core distribution business.

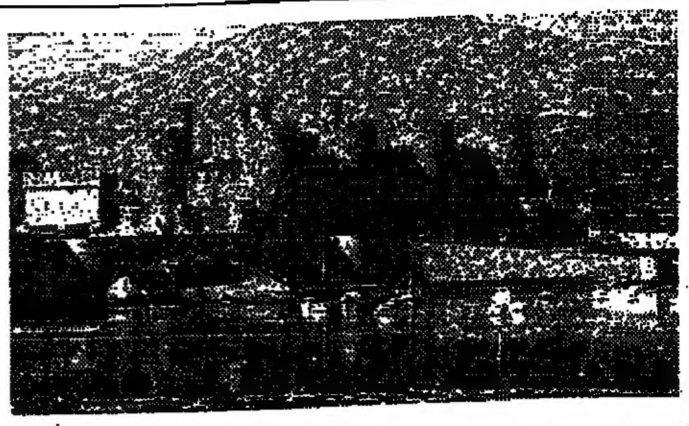
Smith New Court argues that the Government has compensated for South Wales Electricity's potential disadvantages by giving it a relatively easy launch into the private sector. Jointly with Manweb, the company has the most headroom of all the regional companies to raise prices; its price control formula allows it to raise distribution charges by 2.5 per cent more than inflation each year. It will also start life in the private sector with just £25m of debt, the lowest amount of any of the regional companies.

For its part, the company's top managers stress that they are going to steer a cautious path in the private sector. Exciting forays outside its core business are unlikely. "There are going to be electricity companies that please the market by being very good at electricity distribution. We aim to be one," says Mr David Myring, the company's finance director.

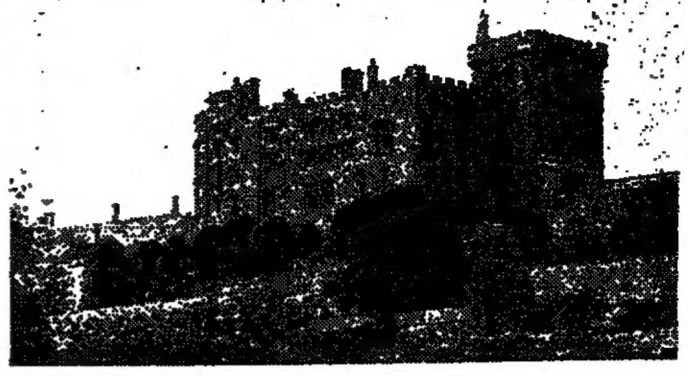
David Thomas
Resources Editor



Wales has a plethora of castles. (Left) Castell Coch, a restored 13th century fortress six miles from Cardiff, (above, left) the ruined Harlech Castle in Gwynedd and (above, right) Caernarvon Castle, also in Gwynedd



(Above) Conwy Castle, near Llandudno, Gwynedd and (below) Powis Castle, just south of Welshpool, Powys



Anthony Moreton on the growth of tourism in the principality

Best foot put forward

TEN YEARS ago anyone who suggested there should be a conference on budget hotel opportunities in the south Wales valleys would have had his credentials minutely examined. The valleys were places to escape from, not to go to.

All that has changed. Coal and steel may once have reigned supreme but today there is little steel and less coal in the valleys. Tourism is leading the greening and Mr Norman Poole, director of development at the Wales Tourist Board, is confident that a conference on this theme, to be held later this autumn, probably in Merthyr Tydfil which itself has two modern hotels, will be a winner.

"There is now a lot of investment in tourist projects in the valleys," he says, "with the big brewers, especially Whitbread and Bass, playing a leading role."

He points to a million pound redevelopment of an old public house in Ebbw Vale, site of the 1992 Garden Festival, as a hotel. He also cites the Heritage Park Hotel now being built in the Rhondda and on target for an opening date in 13 months' time, the first modern hotel to be built in the Rhondda.

"There are ample sites available," he says, "and as people come to appreciate the beauty of the area, sitting as it does at the foot of the Brecon Beacons national park, they will want to use the valleys as a base from which to explore more widely."

Because of his job, Mr Poole may be excused the slight hype he brings to the subject. Others come to the same conclusion even thought they take a harder, more commercial view in which cost and rate of return are all-important. One such is the Japanese leisure and golf company, Sanyo Oil, which is to spend £50m on upgrading the Rolls of Monmouth golf club into an international centre.

The Japanese have said they want to turn the Rolls into the Gleneagles of southern Britain. They plan to add a second 18-hole course, a 130-bedroom hotel with conference facilities, a motor museum and other leisure activities.

The Hendre estate, which now forms the club, was once the home of C S Rolls, whose name is perpetuated on Britain's most famous car. The museum would be dedicated to his place in the industry.

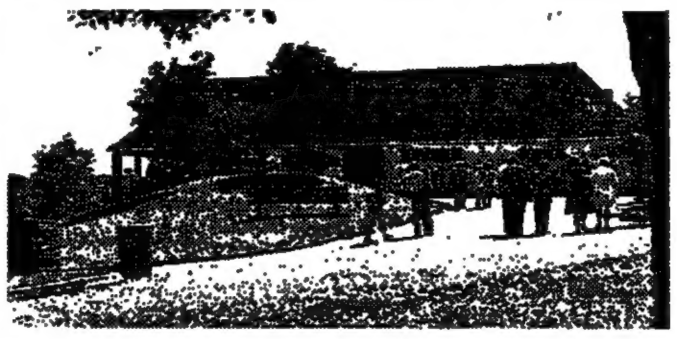
Sanyo is not alone. Rutland Leisure, in conjunction with County Hotels and Leisure Investments is seeking to transform the ruined 13th-century Pencoed Castle, between Newport and Chepstow, into a 200-bed hotel and conference centre with an 18-hole golf course. Leading Leisure, an Isle of Wight-based company, hopes to develop one site in the Vale of Glamorgan and another at Seiont Manor in north Wales, both with golf courses.

It is when these developers, like so many others in Britain, want to incorporate housing into their schemes that they come into direct conflict with the environmentalists and with those who deplore the urbanisation of the countryside.

Sanyo wants to build 80 "executive" houses and 100 holiday lodges in its scheme and Rutland Leisure also has plans for houses. They claim golf course developments are not viable without the housing bonus, since the proceeds from the sale of the houses are needed to finance the golf and hotel facilities. But a course recently opened outside Bridgend has proved immensely successful, even though not one house was added to the site.

The planners will have to consider each application very carefully if the tourism element in the package is not to devalue what the tourists actually come for.

The arrival of Sanyo is the result of careful nurturing of the Japanese market over several years by the Wales Tourist Board. That connection is to be further extended in November when the world-renowned Welsh National Opera Company visits Tokyo. The board is to ride on the back of the company's visit to promote Wales, much as Liverpool used to do when that city's football team played its European cup matches around the Continent.



Brecon Mountain Centre, a base for Mid-Wales' Countryside Festival

The board's strategy, though, is not geared specifically to the Japanese investor. Its aim is to attract those who will provide facilities for high-quality, high-spending visitors, says Mr Poole. Golf is an important, though not the only, ingredient in that strategy and next year the board is to launch a golf initiative to push the attractions of the game in Wales.

"Wales is not internationally seen as a top-class golfing country," admits Mr Wyn Mears, the board's UK marketing director.

"We recognise that we cannot be classed on the same plane as Scotland. But we do have certain advantages, such as a much milder winter than the Scots, and we do have fine courses allied to attractive country-house hotels."

The growth in the number of country-house hotels in the past few years has helped bring in the high-rollers. This spring Sir Bernard Ashley, acting in his personal capacity rather than as chairman of the international textile group Laura Ashley, opened Llangoed Hall, just outside Builth Wells. He has pitched the hotel at the very top end of the market. Llangoed Hall joins places such as Bodysgallen Hall at Llandudno, Pale Hall near Bala, Conrah Country Hotel at Aberystwyth, the Portmeirion Hotel in the eponymous village Sir Clough Williams-Ellis created in north Wales, and the Lake Hotel at Llangammarch Wells.

These hotels helped to boost earnings from tourism to a record £1.5bn last year with overseas visitors contributing about £100m of this total. However, Mr Prys Edwards, board chairman, has expressed disappointment at Wales's inability to win a larger number of overseas visitors. "While earnings from UK visitors have been increasing by an average of 9 per cent a year," he says, "Wales's revenue from overseas tourists has declined."

Mr Paul Loveluck, the board's chief executive, echoes the disappointment. "It is of grave concern that Wales only had 1.6 per cent of the total amount spent by overseas visitors to the UK," he says. And he has called for additional power to market Wales overseas. "Unless we can do that we are fighting a losing battle."

By the end of the millenium Wales could have the finest opera house in Europe. Plans are at an advanced state to create a centre for the performing arts in Cardiff's docklands redevelopment that would do for the Welsh capital what the Sydney Opera House did for Australia. That would be a major tourist attraction in its own right and one that would give Wales a stage to equal its artistic output.

SWANSEA BAY PARTNERSHIP

On the crest of a wave

WHEN THE Government launched the Swansea Bay Partnership a year ago, the intention was to focus greater attention among the investment community on the region that is based on Wales's second city. All the local authorities – two county councils and six districts – agreed to submerge their individual identities and pull together to bring more concerns to the area.

Local authorities in Wales have not been conspicuous in the past by their willingness to work together, though their attitude is probably little different from councils elsewhere in Britain. "The partnership was seen," according to Mr Michael Bourke, its chief executive who has come from the banking field, "as a one-stop shop for anyone interested in the area.

"That co-operation has already produced results. There is a willingness to work together for the area and we have already had a measure of success."

The partnership was not, though, just co-operation among the local authorities. There is a sizeable contribution from the Welsh Development Agency and the private sector is heavily involved. Mr Ian Pratling, the partnership's chairman, is managing director of Wolff Steel.

The setting up of the partnership has to be seen in conjunction with other initiatives established in Wales. Four years ago a development corporation was set up to rejuvenate Cardiff's decaying docklands and two years ago an initiative to bring new life to the valleys of South Wales was launched. Subsequently, a financial services initiative was set up in south-east Wales, a rural scheme launched for rural Wales and a project brought into being to attract industry along the A55 expressway corridor in North Wales.

One tangible piece of evidence of how the Swansea Bay partnership has worked has been the setting up in Swansea itself of the European headquarters of the American company Alberto Culver, one of the world's leading producers of hair-care products, whose brand names include VO5. Culver is relocating its base at Basingstoke to Swansea, a move which will create 280 jobs in Wales.

Culver's move from Basingstoke creates 280 jobs in Swansea

"Swansea was chosen after a review of all the options open in Europe," says Mr Graham Fish, Culver's managing director. "It not only fulfils our immediate needs but also provides the flexibility for the next phase of our operations, offering a pool of quality staff to maintain our momentum."

Alberto Culver is just the sort of company that Mr Bourke wants to see in Swansea Bay – small-to-medium-sized concerns with the capacity for growth. But not any sort of company: preferably those that will provide alternative disciplines.

Swansea Bay contains the largest concentration of manufacturing industry in Wales. Steel bands the area together industrially: British Steel's giant integrated works at Port Talbot, employing some 4,500 people, is one of the most efficient plants in the world; further west the company has a colour-coated works in Gorseinon and a tinplate works at Troestre in Llanelli, at the west of the partnership area.

But steel is not the only heavy industry. BP Chemicals has a major plant at Baglan, Port Talbot, and there is another BP plant, a lubricating oil and specialist refinery, at Llandarcy. Ford has an engine-components plant in Neath and Alcoa, 3M and Morganiste are all in Swansea.

These big companies are part of the history of Swansea Bay. Until half a century ago, the area was the metal-forming capital of the world. Copper, tin, lead, zinc and other metals were formed while behind it all there was coal.

Most of this primary industry had disappeared by 1950, leaving behind one of the largest areas of urban dereliction in Britain. That dereliction has been transformed by the work of the Welsh Development Agency and the setting up of an enterprise zone in 1981. A more diversified industrial base has been created.

"Unfortunately, too many people still associate Swansea Bay with metals," says Mr Bourke. "But it is no longer only about metals. We are increasingly developing the smaller concerns making, for example, motor components or high-technology parts."

There remains strong demand from heavy industry to move into the area. Many companies would like to find a home in the shadow of BP Chemicals or British Steel.

However, the authorities are not anxious to turn Swansea Bay into another Billingham on Teesside and so vet every planning application very carefully to ensure a more balanced economy is created.

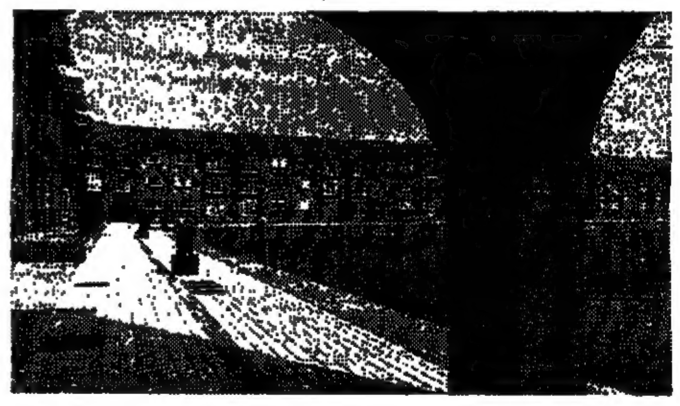
Typical of the sort of company that Mr Bourke would like to see more of is Fiox, which earlier this year announced the setting up of a £2m plant at Port Talbot to produce fibre optics. The product was right and the size – 100 jobs – was also right. Mr Gerald Clark, managing director, says the company has set itself the target of becoming number one in the world fused-fibre-optic market.

Interest in the whole Swansea Bay area is growing rapidly, says Mr Trevor Osborne, Swansea's director of development. He points to the barrage across the Tawe in Swansea itself which will lead to the development of the derelict riverside, the creation of the maritime quarter in the city and Associated British Ports' Port Tawe £150m development.

"Six years ago no-one was interested in offices in Swansea," he says. "But there have been great strides in this sector recently. About 400,000 sq ft have been built in the enterprise zone and Lloyds Bank has relocated a headquarters unit into it. This is the growth area of the next decade."

Similar developments are taking place at Llanelli where a 600-acre scheme undertaken jointly by the local authority and the WDA will rejuvenate a sector, also once part of the metal culture of the area, into housing, leisure and shopping, with an associated marina. A South Wales town without its own marina will soon be as exceptional as a football pitch without goalposts.

Anthony Moreton



Swansea Docks redevelopment

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Stewart Dalby on the role of the Development Board for Rural Wales

More incentives for the private sector

THE DEVELOPMENT Board for Rural Wales does not throw vast sums of government money at little old ladies in woolly hats who sit behind spinning wheels, reviving the Welsh quilting industry. Nor does it spend most of its budget subsiding young ladies in smocks who have become potters.

It has not spent millions helping retired colonels from England set up trout farms in Welsh rivers and it has not given thousands of bearded hippies the wherewithal to make ancient musical instruments and blow fine crystal glass.

It *has* spent some money on some craft projects, but probably less than 1 per cent each year of its annual budget, which in 1990-1991 will be around £20m.

It has also been involved in restocking Cardigan Bay with lobsters, in helping organic farms, in a pilot project for camelias and encouraging the 700 or so fairs and festivals held in Mid-Wales.

However, over a *half* of the board's budget is spent on building factories for modern manufacturing industry.

The development board feels the image of it as being *bijou* and supporting peripheral projects is misplaced. It argues that attracting industries – electronics, agribusinesses and other light manufacturing concerns, albeit small ones – into the area is the best way, perhaps the only way, to secure alternative sources of revenue for a predominantly rural region where agriculture is shedding jobs and losing income.

Put another way, attracting industries through giving grants and subsidising factories, as well as building houses for key workers in the past, is the best method of stopping the depopulation, particularly of the young, from the area.

The Development Board for Rural Wales was established in 1977 as a separate entity from the WDA because the problems of rural Wales were seen as different from those of the industrialised valleys in the south.

It was created to promote the economic and social development of Mid-Wales which comprises the district of Ceredigion in Dyfed, Meirionnyd in Gwynedd and the districts of Brecknock, Montgomeryshire and Radnor in Powys. This is some 40 per cent of the land area of Wales.

The depopulation of the area has been pronounced and protracted. Between 1891 and 1981 the population of Mid-Wales fell by 23,500 whereas the total population of Wales increased by over 1m.

The Mid-Wales population decreased from 12.6 per cent of the Wales population in 1891 to only 7.2 per cent in 1981. Thus the population has fallen in both absolute and relative terms.

The low point came in 1971 when the population was only 185,559. It began to creep up slowly and was given a push when the development board was set up. Today it is 215,000, roughly 10 per cent of the population of the principality, and growing.

In its 13-year existence, the board has built 569 factories and created 12,000 jobs. Currently about 10 per cent of the factory stock is available. To encourage key workers – which usually means managers – to come to the area, it has also built 1,400 houses, most of which it still owns.

In line with Government policy, it is not building houses any more but it still has some available at cheap rents for newcomers while they look for homes to buy.

The number of factories built does not correspond to the number of companies which has been attracted. Laura Ashley was in the area before the board was set up. But it has expanded considerably, often with aid and assistance from the board. Despite its well-publicised troubles, Laura Ashley is still a major employer in Mid-Wales.

The board is keen on growing its own companies, encouraging small start-ups and relocations of, say, less than 20 people and then helping them expand. Mr Glyn Davies, chairman of the board, says it is not interested in large concerns like Toyota setting up in the area.

It wants to avoid the branch-factory mentality: this is big companies located elsewhere setting up satellites because the area is cheap. They can disappear as quickly as they arrived, if there is a recession.

"In any event, we could not cope with a large concern. The area is not made for it, we have not got that much labour. A company starting up with 20 people is big for us, we can help it grow," Mr Davies says.

Many companies have expanded, but there has been a steady trickle of companies starting up or relocating. In the past year the board has grant-aided companies to the tune of £1m. This has generated private investment of a further £5m.

In the past companies have come in spite of the area's reputation for poor communications. Mr Grenville Jackson, the marketing director, says this notion of Mid-Wales being remote is misplaced. The eastern towns, such as Newtown and Welshpool, are within easy reach of the motorway network. Transport costs are a small part of total costs, and other costs are lower and compensate to some extent for the extra hours of driving.

Attracting industries through giving grants and subsidising factories, as well as building houses for key workers, is the best method of stopping depopulation from rural areas

Improvements are being made to roads into Wales, and a new tarmac airport is being built at Welshpool at a cost of £500,000, almost entirely with private sector funds.

Labour costs in Mid-Wales are low, and the board has ensured that factory costs have remained significantly cheaper than elsewhere. In addition, grants and loans, which are disappearing in other areas of the UK, are still available in Wales.

Keeping workers in the region once they leave school or come in from outside has also been recognised as vital. To help this process the board spends £500,000 a year or 3 per cent of its budget on what it describes as its social development programme. This includes building community halls and leisure centres, restocking rivers and lakes and gaining fishing rights for local anglers. In one town it has helped build a theatre.

All this spending ultimately represents an ongoing subsidy to the private sector. Although some £1m of the board's budget is self-generating, for instance through property management and property sales, there is still a grant from the Government of £9m.

But it is almost certainly true that without the board or something like it spending public funds, development would not have taken place.

As Mr Davies puts it, "if the development board had not been created we would have continued to lose population. The companies would not have come without the incentives."

Certainly, few private sector developers would have built factories speculatively. Rents are still only around £3 a sq ft, probably too low for developers although a private sector estate is being built up at Welshpool.

If public spending, through some kind of state body has been the *sine qua non* of development in Mid-Wales, it is possible to argue that the board has got its strategy wrong.

One line of criticism is that rather than despoil the lovely Welsh countryside with ugly factories by encouraging industries, tourism should be developed.

Perhaps, as in Cornwall, there should be a drive to promote farmhouse holidays, now that farmers and farm workers are leaving the land at around 300 a year in the region and it is official policy to diversify land away from food production.

Alternatively, there could be upmarket tourism with fishing and shooting holidays like Scotland and Ireland.

Mr Davies says that the factories the board builds are not ugly but in sympathy with the environment. He admits, however, that not just in Mid-Wales, but in the principality as a whole perhaps more could have been done to create new tourist products.

There is an attempt now to develop country house weekends, and there is a Victorian festival in Llandrindod Wells each August.

Farmhouse holidays and pony trekking have sprung up here and there. But there has been little effort to revive faded seaside towns such as Aberystwyth and Aberaeron.

But the main argument against tourism is that although it produces income, it does not create many jobs, or at least, not many well-paid jobs. It is high income jobs that the board is interested in.

The creation of 12,000 jobs may not sound many but with the multiplier effect, and in the context of the small Mid-Wales economy it is quite a lot. Unemployment for the region has fallen to around 4 per cent in the eastern part, with some black spots in the west where the levels are between 7 and 10 per cent.

The challenge for the development board over the next decade or so will be trying to spread investment into the western reaches, to such towns as Tywyn, Cardigan and Aberystwyth. These have suffered from a perceived remoteness in the past. But as Mr Davies says: "Twenty years ago, people were saying that Newtown was in the middle of nowhere. Now it is considered on the doorstep of Manchester and the West Midlands. The west gets closer all the time."

Mid-Wales business case study: Organic Farm Foods

A race to keep up with demand

THE ORGANIC Farm Foods company which, with 120 employees and a seven-figure turnover, is one of the largest commercial concerns in Lampeter in west Wales, is the brainchild of Mr Peter Segger.

Now in his early 40s, he has become a major force in the organic movement. In the early 1970s he, like many others at the time, wanted a change of lifestyle and bought a small 14-acre farm at Blaen Camel, close to Lampeter, and began organic farming.

After a few years he found there were a number of other organic farmers in the area. They were cutting each other's throats commercially as they drove around in their vans trying to sell the produce to "green" shops and individuals.

This led in around 1984 to the formation of Organic Growers (West Wales), a co-operative which now has some 35 members.

A little later, Organic Farm Foods was established to market the produce of the co-operative. Then, Organic Growers (Scotland) was formed and a little later still a sister company making cheeses, notably the local Pencareg cheese, was launched.

At about the time that Organic Farms Foods was set up, Safeways and Sainsburys, within a few months of each other, decided to stock organic products on their shelves, at first on a trial basis.

The supermarket and chain-store business has grown rapidly but speciality "green" shops still account for 20 per cent of the company's turnover.

For the farmers, the co-operative is working well. They do not have to compete with one another at the farm gate or by selling individually, with all that means for prices. But it also means there can be proper crop rotation not only on the individual farms but between the various farms. Economies can also be made with plant and machinery purchase.

As the market has grown, Organic Farm Foods has imported produce. Depending on the time of year, imports now amount to up to 50 per cent of turnover.

The key to the company's fortunes is the quality of the produce. There is a total insistence that no artificial fertilisers should be used. The company works closely with the Soil Association to make sure there is no cheating. It holds seminars and has inspections.

Mr Paul Nicholas, another director of the company (Mr Segger is managing director) says: "British consumers are sophisticated, they know what they are buying. They are prepared to pay a little extra for organic produce but they want the quality."

To ensure rigorous control over imported products, Organic Farm Foods accepts a restricted number of symbols. These are like quality standards used in the wine business.

Mr Nicholas regrets in some ways that the expanding market means the company has to import. Importing means that we have a 12-month business and this spreads costs. But a lot of what we import could be produced here.

"All right, it makes sense to import early-season courgettes from Spain before ours are ready – also some citrus fruits are better from abroad. But in the main lines – potatoes, cabbages, carrots and swedes – more could be done here," Mr Nicholas says.

Welsh farmers have grown in sophistication both in terms of increasing yields and standards and in diversifying into new crops.

More salad products are being grown. There is even interest in organically-grown sheep and meat. The area of Wales around Lampeter was not affected by Chernobyl, unlike parts of North Wales.

With livestock production the problem is processing, since supermarkets generally do not want unpackaged goods. There are few facilities in the area at the moment. Farmers who want to go in for organic vegetable growing face other problems.

Organic farming does not receive any kind of subsidy from the British Government or the European Community in Brussels. Switching to organic farming can involve a gap of two years before the land is leached of the impurities which have been pumped into it by other forms of farming.

For cereal farmers, it is even worse. Cereals usually demand intensive fertiliser inputs and it can take up to five years before the land can beused for organic growing.

Few farmers can stand such losses. Even in the west of Wales where the only input has often been nitrogen, it can take a farmer a year to get his organic symbol.

In getting established Organic Farm Foods received a grant from the Welsh Office. The Development Board for Rural Wales built and still owns the 35,000 sq ft factory, which is on an industrial estate. But now that the company is off and running (it makes profits) would it not make more sense to move closer to markets or at least be equidistant from suppliers and markets.

Lampeter is remote or at least perceived to be remote.

Mr Nicholas says a few of the buyers who visit do find it a little out of the way but says there are a number of very sound reasons to stay in Lampeter.

Mr Segger still farms in the area and is closely involved in the organic movement generally – improving the quality, new technical developments and the like.

The area is one of the fastest growing locations for organic farming. It helps to be part of a culture.

Rents and wages are low, though not as low as is often made out, according to Mr Nicholas. While there is high unemployment in the area, there are also curious shortages. Rates are also low and the company is not being that badly hit by the imposition of the uniform business rate.

The distance is not the problem it appears. Organic Farm Foods is not that interested in becoming a distribution company. It is also a packaging concern. The company has a agreement with a distributor which carries and fetches from Eavesham.

It brings produce from Hereford and Worcester and takes packaged goods off for further distribution.

The four articulated lorries used by the company travel through the night, when the Welsh roads are empty.

"It is not so much distance as time which is the key factor. Transport costs are in any event not a great proportion of total costs," Mr Nicholas says.

For its foreign business, Organic Farm Foods has developed links with companies wanting to back loads. That is, they go out with a cargo of, say, window panes and – rather than come back empty – bring organic produce.

Turnover has risen tenfold over the past three years to over £1m. The company can barely keep up with demand. Clearly, the organic movement has some way to expand yet.

Stewart Dalby

Focus on North Wales

More attractions for investors

ALTHOUGH it is united by language, a common culture and history, there is often a tendency to compartmentalise Wales.

The Principality is written about as if it were almost two countries – there is the industrialised south, where there used to be steel mills and coal mines: this looks to Cardiff as the capital.

Then there is the North which is perceived as largely rural, and looks more to Manchester, Liverpool and the West Midlands as sources of jobs, investment and tourists.

Some writers include a "third" Wales – that of Mid-Wales. This is the area covered by the Development Board for Rural Wales. It covers 40 per cent of the land area of the country but has only 10 per cent of the population.

Of all these labels, the most unsatisfactory is that for the area known as North Wales. The two counties usually considered to comprise North Wales, Clwyd and Gwynedd are as chalk and cheese in industrial make-up.

Clwyd is more like south Wales or areas of the north and Midlands. It had steel, coal mining, chemicals and textiles, particularly along Deeside.

Gwynedd which includes the Snowdonia National Park and some of the most beautiful scenery in the British Isles has tourism some small-scale industries, as well as agriculture and fishing.

Like other old industrial areas of the country, Clwyd underwent a great shake-out in the early 1980s. Some 8,000, mostly men, were thrown out of work when British Steel closed its steel-making activities at Shotton.

With coalmining reduced to one pit, and losses elsewhere, Clwyd had 22,000 out of work, equivalent to 20 per cent of the workforce, as the recession began to bite.

Clwyd has more than made good these losses by enticing into the area a wide range of companies many of them foreign. There are seven Japanese concerns which between them employ 2,500.

With others from the US and Western Europe, such as Kimberley Clark, Kellogs, Monsanto, Metal Improvement Company, some 6,000 are employed by foreign concerns.

British companies have contributed to the falling unemployment either through rationalisation, reorganisation or expansion. British Steel still has a presence in the area as do Pilkingtons and British Aerospace. The male unemployment rate in July was down to 6.1 per cent, below the national average of 6.6 per cent.

Regional aid from the government has been important in attracting new investment, and there has been the network of other agencies, the Welsh Office, the WDA, Welsh Development International, the district and borough councils and not least the Clwyd County Council which has been very active setting out Clwyd's stall for potential investors to come and look. But there have been other factors.

Deeside Industrial Park, Clwyd

This year work started on the construction of Toyota's engine plant which is on the 600-acre Deeside Industrial park. It will employ in the next couple of years 320 people and represent and an initial investment of £250m.

Part of the attraction to a company like Toyota, is that because of its industrial past Deeside has a pool of labour with the skills needed. It is cheap labour compared to other parts of the north and Midlands.

But it is not just a labour issue. Clwyd had sought to win the major Toyota assembly plant which eventually went to Burnaston in Derbyshire. Before that it made a bid for the Nissan plant, which went to the north-east.

As Mr Robert Ashton, the marketing manager for the Clwyd County Council says: "You get no prizes for coming second, but our bids for Toyota and Nissan *did* put us on the map and publicise what we can offer."

What Clwyd offers, apart from skilled labour, is plenty of relatively cheap land. Many authorities would not even consider bidding for the big industrial investments like Toyota, knowing full well they simply could not accommodate them. Steelworks take up a lot of land, so Clwyd has hundreds of acres on offer. At £4 a sq ft, it is considerably cheaper than many areas, even in the north of England.

Clwyd County Council insists that, despite the successes of recent years, it is not complacent. The prospects of further job losses during to closure of Brymbo steel works later this year has made the authority look to its laurels.

Mr Warren Phillips, the chief executive of the Clwyd County Council says:"We have been successful in getting new manufacturing jobs, as well as encouraging start-ups. Now we want to try and attract the better paying service companies."

Some service companies have been established, such as Iceland foods.

However, in the past, Clwyd was overshadowed by nearby Chester which tended to take in the lion's share of the service groups looking at the area.

Now, with rents rising in Chester and shortages of the right type of accommodation, there are hopes that Wrexham could become the focus of service companies' attention.

Clwyd County Council wants to combine this with a drive on tourism, in the broadest sense. This would include upgrading leisure and shopping facilities in old seaside towns such as Rhyl.

Tourism is obviously important to Gwynedd. Apart from Snowdonia, the county which begins at Conwy has some stunning scenery, of valleys and rushing rivers, as well pretty towns and villages. It does not lend itself the kind of large investments scene in Clwyd.

In any event they would not be entirely welcome. Gwynedd is an area of Welshness with the Welsh language widely spoken in a way it is not in the anglicised east.

Gwynedd, like Mid-Wales, wants small and medium size relocations and business start-ups that are environmentally friendly. Small furniture makers, food processors or niche electronics manufacturers who would not intrude on the landscape and not need too many employees are the kind of companies which would suit.

One problem is that unlike Mid-Wales, North Wales does not have its own development authority like the Development Board for Rural Wales to build factories for it. Rents are such that private developers are not yet interested in building speculative factories.

North Wales has to share out of the common Welsh Development Agency pot. There has been some criticism that the WDA has not given North Wales the attention it deserves. It has, however began to study certain black spots like Holyhead, and Blaenau Ffestiniog.

Another problem has been communications. Like south Wales and Mid-Wales, North Wales has a tendency to look east. The further west one goes, the less suitable the areas seem for redevelopment.

This situation is changing, however: the completion of the A55, so-called expressway along the coast to North Wales, virtually from the Liverpool-Manchester conurbation, has made Gwynedd attractive – not just to tourists, but also investors.

Stewart Dalby

A national treasure: Nant Gwynant, Snowdonia.

Signs of a stronger economy

Continued from page 1

£50m, one of which, undertaken by Hyperion Properties, an offshoot of National Freight Corporation, is the first major office scheme within the massive redevelopment of Cardiff Bay – "the proposals for Cardiff Bay alone are enormous," he says, "and the important thing is that this interest is not confined to either Cardiff or south-east Wales. The whole of the country is benefiting."

As if to confirm his words, two weeks ago Mr Hunt, the Welsh Secretary, unveiled a £50m scheme by Spedhill, the property arm of Tesco, for a site at Nantgarw, at the foot of the south Wales valleys, long described as Wales's inner-city area.

Another sign of the stronger economy is the rise in output. Since 1985 there has been a 32 per cent rise in manufacturing production in Wales compared with 19 per cent for the UK as a whole. The construction industries went up by 39 per cent against 22 per cent for the UK while there were particularly strong rises in the electrical engineering and printing industries.

Although the Welsh economy, helped by the strong inflow of new investment, has managed so far to ride the downturn which has affected most of the rest of the British economy in the past 18 months, there are warning signs that its growth may also now be affected. Mr Ian Kelsall, Welsh director of the Confederation of British Industry, says it can "no longer be predicted that firms in the principality are riding the storm better than those elsewhere in the UK.

"Business confidence is lower, reflecting a squeeze on company profits and an increasing number of companies' cash flow is deteriorating due to higher levels of company borrowing during a period of high interest rates. Orders and output have deteriorated since April and an anticipated improvement in both has not materialised."

Sir Peter Phillips, chairman of AB Electronics, adds that the survey "shows a further decline in the confidence of Welsh manufacturing industry in the past few months, bringing to an end the period in which firms in the principality were outperforming their counterparts elsewhere in the UK."

That caution – gloom is perhaps too strong a word – is repeated by others. Touche Ross's Mr Lindsay points to "growing insolvency work being undertaken in south Wales. Wales is now experiencing the same sort of problems as the rest of the British economy. The country is suffering from the knock-on effect of what is happening elsewhere."

The announcement of the closure of the steelworks at Brymbo, the Blaenant pit closure, Ford's decision to pare back its massive new investment at Bridgend and Swansea and the closure of UK Optical in Kidwelly with the loss of 200 jobs shows that the long haul to pull Wales out of the recession after 1979 still has its difficult patches to negotiate.

Concern is also emerging over the ability of the new industries to find sufficient workers of the right quality.

Level of skills

With Bosch and British Airways now fishing in the same pool University College's Mr Cooke says "the level of skills in the Welsh economy must be improved significantly, as must the level of technology used, if companies in Wales are to compete.

"There is a long way yet to go if Wales is to escape its current low-skill, low value-added and low output-per-capita profile," he claims.

Yet the extent of change in Wales is not confined to the industrial front. In the artistic world, Cardiff has become an important British centre, housing a top-rate symphony orchestra, the world-famous Welsh National Opera Company and good mainstream and fringe theatre. In the next few years the city is likely to have an international opera house in the development taking place in its docklands and, more immediately, a World Trade Centre, now approaching completion by the Brent Walker group.

Politics, too, are changing. Five years ago it seemed as though a Conservative resurgence was about to happen. In 1983 the Conservatives won a record 13 of the 36 seats at the general election.

But Labour fought back and the Conservatives now hold only seven of the 38 seats. The resurgence of Labour and the decline of the Conservatives may turn out to be less important than the way in which it has been achieved. Labour has brought to the fore half a dozen MPs who might well be included in a future government. Young men who reached Westminster as recently as 1987, such as Mr Alun Michael and Mr Rhodri Morgan, are already front-bench spokesmen.

The new wave of Labour MPs is younger, radical but pragmatic, replacing the tired ward chairmen who have for so long represented the party in the Commons.

The last word comes from Dr Gwyn Jones, the WDA's chairman, who says that the prosperity allows Wales "to play a key role as a thriving region in the new Europe. Wales faces the 1990s in far better economic health than when the 1980s began. The economy has been broadened and the over-dependency on old-fashioned industries has been removed. The future is bright."